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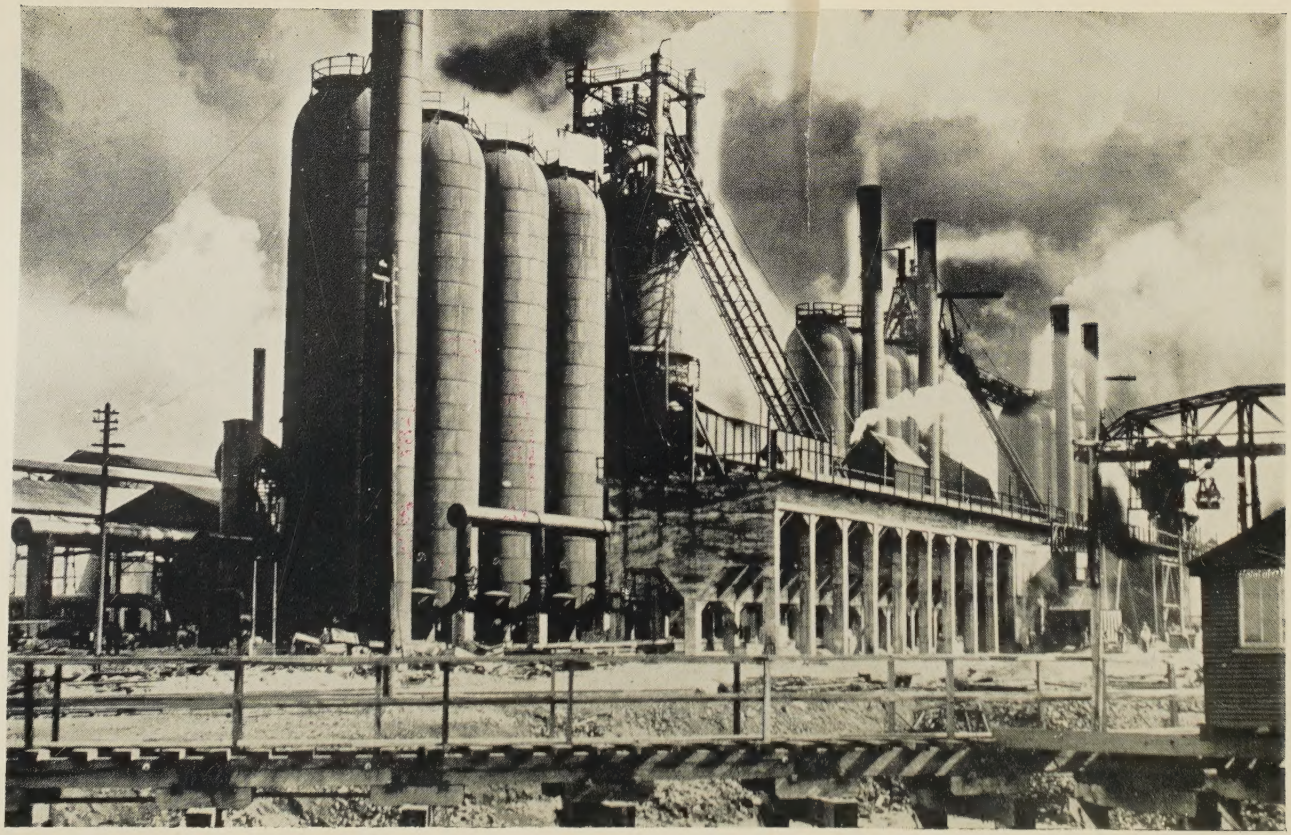

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ECONOMIC CONTROL

AUSTRALIAN EXPERIMENTS IN "RATIONALISATION" AND "SAFEGUARDING"

BY

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PREFACE

The following pages are the result of experiences in business, the real significance of which were only made clear to me after a course of study at the London School of Economics and a visit to Australia in 1924–5, as a Sir Ernest Cassel Travelling Scholar, to investigate industrial conditions. As they are concerned with the whole field of economic theory and practice they are necessarily incomplete.

The first two Parts contain an account of methods generally recognised by economists, by which it is possible to exercise a conscious control over the economic system. The third Part describes some methods used to-day in Australia, a country which is attempting this conscious control more thoroughly than any other.

Since practice is always very different from theory, the task of bringing the two into adequate relationship with one another would be impossible without a mass of cross-references. In a book of this kind, which is only intended as a preliminary survey of the subject, such a course appears undesirable and confusing, though some attempt has been made to bridge the gap.

For the facts in Part III, I am indebted to many Australians, including business men, government officials and university teachers. In spite of the reports I had heard of their open hospitality, they helped me to explore the resources of their country to an extent greatly in excess of all my anticipations. I owe a great deal to Professor Copland for his suggestions in Melbourne. Since 1925, many changes have occurred in Australia. An attempt

has been made to bring the facts up to date, from the information available in London. The task has been greatly lessened through the resources of the Library at the School of Economics and help received from the Librarian. The whole of this Part was revised during the middle of 1928, but since then only the more important of recent developments have been included.

My thanks are due to Professor Sargent and Dr. Hugh Dalton for many helpful criticisms both before and after this book was written.

I am also indebted to Mr. F. L. McDougall for a number of suggestions concerning Part III.

The photographs and diagram were obtained through the courtesy of the High Commissioner of Australia and the Agents-General of New South Wales and Victoria. The map was made with the help of Miss D. Wilford.

N. SKENE SMITH.

London School of Economics
and Political Science.
February, 1929.

INTRODUCTION

By Dr. Hugh Dalton, M.P.

Reader in Economics in the University of London

I have seen something of this book in the making. Now that it is made, I wish it a happy voyage and many readers both in this country and in Australia. Its author travelled in Australia while he was still young enough to make the most of new impressions, and while he was still an undergraduate, due to return to London and finish his degree course at the end of his journeyings. He also spent some time in business, and some further time in University teaching, while he was finishing his book.

The special interest of the book lies in the synthesis, which it attempts, of modern economic theory with modern Australian practice. Modern theory, in its more significant and interesting forms, is fastening more and more on the problems, as Mr. Skene Smith calls them, of " conscious control over the economic system." *Laissez-faire*, as a would-be philosopher, is altogether too simple-minded for our modern age. Mr. Keynes has written his epitaph as elegantly as any. Professor Pigou has buried presumptions in his favour beneath masses of rebutting detail. Other economists, too, have contributed to his disestablishment. The question, over an increasing range of problems, is not " Shall the community intervene at all ? ", but " Precisely how shall the community intervene ? "

Laissez-faire was never taken very seriously as a philosopher in Australia. This, no doubt, helps to account for the bad and biased Press from which

Australia sometimes suffers in this country. She has a capacity for shocking City Editors, and other timid and traditional minds as well.

It would be easy, on the other hand, though Mr. Skene Smith avoids this pitfall, to systematise Australian practice unduly, and to seek to present it as a comprehensive and well-rounded whole. It is not this. It is not a single great plan, but a series of varied and tentative experiments. These are worth study in detail, and in relation to a logical classification of their objects. Mr. Skene Smith's book enables us to make such a study. It is a valuable account of what is being attempted, and of what has been achieved, in Australia. Of particular interest, if a selection must be made, is the story of the sugar industry in Queensland, of the growth of irrigation schemes, and of the beginnings of the work of the Development and Migration Commission. Those who never make mistakes, never make anything. And those who are making modern Australia are not afraid of making a few mistakes. But they are teaching themselves, and the rest of the world at the same time, some most instructive lessons in economic statesmanship.

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PART I

THE MEANING OF ECONOMIC CONTROL

CHAPTER I

A DEFINITION OF ECONOMIC CONTROL

1. The growing belief in the need for deliberate regulation of the economic machinery of the world, in the interest of its inhabitants. 2. The hindrances resulting from political prejudices. 3. Economic science and economic control. 4. Opinions of business men, economists and others. 5. A brief comparison between the growth of control over education and health in the nineteenth century; (6.) and over economic organisation in the twentieth; both forms of control being dependent upon the teachings of science. 7. A brief comparison between recent developments in Russia and in the British Dominions. 8. The art of economic control is now to some extent being based upon economic theory.

1. In this age of science, it is no longer generally believed that an "invisible hand" controls the economic machinery of the world, and that the individual who works solely to further his selfish interests, is unconsciously promoting an end which is "no part of his intention," and is necessarily acting for the benefit of mankind.[1] Also, it has, perhaps, become economically, as well as politically true, that "he that is incapable of society, or so complete in himself as not to want it, makes no part of a State, but is either a beast or a god."[2] Accordingly, the obvious interdependence of existing economic units has led to a strong demand for co-operation of various kinds between producers, consumers and governments; a co-operation which will overcome some of the defects of human nature so noticeable under conditions of ordinary competition or monopoly. Nevertheless, although we are beginning to realise the complexity and delicacy of the engine which supplies our wealth,[3] we have not yet learnt to regulate the quantity or quality of

[1] Adam Smith, *Wealth of Nations*, Book IV, Chap II. The extent to which a natural law is absent from the economic dealings of men may be said to measure the degree of economic anarchy produced by *laissez-faire*.
[2] Aristotle's *Politics*, Book I, Chap. II.
[3] Cannan, *Wealth*, Preface, pp. v–vi.

its product, nor to get the greatest advantages from the consumption of that product.

2. Certain political groups, some having simple, some compound labels, consider that "The State" could soon learn to drive the economic engine with a minimum of friction. They consider that under such conditions, the loss of the profit-making incentive of competition would be outweighed by a freeing of the natural benevolent impulses innate in most human beings. The meaning of the ideals behind these labels and the conception of the State which they involve, are equally blurred. More or less independent Corporations, Commissions, Committees, Government Departments, or Ministers can represent the State in its economic activities, and in practice, the relations between the State and the individual will depend upon which of these forms of representation is chosen. Again, the difference between "Collectivism" and "Individualism" will vary in accordance with the meaning given to the terms.[1] It is probably true to say that the main political groups are not Collectivist and Individualist, but Collectivist and Anti-Collectivist. The latter often agree that some collective control by the State, or through State-assisted bodies, is desirable. They appear, however, to be obsessed with the fear that experiments among the wheels of commerce will lead to serious interference with the mechanism, and a consequent reduction in economic activity. For this reason, constructive examination of alternative policies is rare, while friction and waste are in no way lessened. The only substitute for what is to them a fairly wholesome, if somewhat uncomfortable, economic

[1] The extreme Collectivist and Individualist opinions are worth quoting, as they show the enormous gap which has to be bridged to enable co-operation between the two groups. The following are from a collection of opinions gathered together by Huntly Carter after the War, in a volume called *The Limits of State Industrial Control* (Fisher Unwin, 1919). G. Bernard Shaw: "I can only say generally that as there is no limit to State power, there can be no limit to State control now that the old theory of *laissez-faire* is not only discarded but disgraced." Sir Hugh Bell: "It strikes me that these years of bureaucratic rule have greatly lessened any belief we had in centralized government, and have confirmed us in the opinion that we can manage our own affairs better than any government can manage them for us."

struggle brought about by the forces of self-interest, is an almost blind reliance upon a shadow called the State, or upon the alleged benevolence of human nature.

3. It is a true, though but recently recognised function of the science of Economics, to offer principles in accordance with which the economic machinery of a community may be controlled, and by which the size, distribution and consumption of its income may be scientifically regulated in the interests of its members. Economic Control,[1] as we may perhaps call this branch of the science, will no doubt advise, in practice, the retention of most of the advantages of individualism, under the protection and encouragement of the State and other collective organisations. Disagreement among economists as to the scope of their science has delayed the development of theory along these lines, and practice based on economic theory has not proceeded rapidly in the older countries of the world. In an old country, political parties are too often swayed by principles unadaptable to the changing facts of economic life. In a new country, on the other hand, traditions and principles are not so fixed, and each party, whatever its label, is compelled to carry out a considerable amount of "betterment" legislation. Consequently, the new countries offer the largest opportunities for observing the effects of economic control. In all countries, however, thought and experience are leading to a belief in the latent ability of man to improve his surroundings. "The new idea of life admits no limit to man's attempt to control his destinies. It plans as largely as it can; it would plan more largely if it could; it gathers together every available force to free man from accident and necessity and make him master of the universe in which he finds himself."[2] This "new idea of life" has spread to business men, economists, social philosophers and political thinkers.

[1] This term has also been used by Mr. Dobb in his book *Capitalist Enterprise and Social Progress* (Routledge, 1925). It implies to him, "a science of community-housekeeping which shall be more comprehensive than the political economy of the past. The keystones of this structure will be the principles of economic calculation, of economic measurement, and of economic substitution," p. 399.

[2] H. G. Wells, *The World of William Clissold*, Vol. III, p. 694.

4. For example, The National Industrial Conference Board of New York,[1] consisting of business men and economists, published in 1925, a book upon Trade Associations, which emphasised the need for conscious regulation of competition. The book attempted to show how a compromise between voluntary co-operative action and governmental supervision, could be effected. Mr. Keynes, using a zoological metaphor, has stated the problem in another way. If we have the welfare of the human giraffes at heart, " we must not overlook the sufferings of the shorter necks who are starved out, or the sweet leaves which fall to the ground and are trampled underfoot in the struggle, or the evil look of anxiety or struggling greediness which overcasts the mild faces of the herd."[2] Professor J. M. Clark has pointed to the enormous waste brought about through our failure to co-ordinate demand and supply or demand and need. He considers the greatest opportunity which exists for bettering the lot of mankind is that of improving our system of social control.[3] Mr. Delisle Burns, as a social philosopher, concludes that a new conception of the economic community is growing which involves a unique complex of the State and non-governmental organisation in industry.[4] Professor Laski declares that the " idea of unregulated competition does not exist outside of economic theory." " Regulation indeed has become the rule rather than the exception; and an economist who would paint a portrait of the industrial process must deal rather with the friction by which his hypotheses are frustrated than with the hypotheses themselves."[5] " Either we have to make a world by deliberate plan, or we court disaster. It is a grim alternative. It makes men feel how near their feet lie to the abyss. But it is also an alter-

[1] The National Industrial Conference Board, Inc., New York, is a co-operative body composed of a number of national and State industrial associations of the United States and four Government departments, and is organised " to provide a clearing-house of information, a forum for constructive discussion and machinery for co-operative action in matters that vitally affect the industrial development of the nation."

[2] Keynes, *The End of Laissez-faire*, pp. 29, 33–4.

[3] Clark, *Social Control of Business*, p. 19.

[4] C. Delisle Burns, *Government and Industry* (Allen & Unwin, 1921). Preface.

[5] *Grammar of Politics*, p. 489 (Allen & Unwin, 1926).

native that may prove the pathway to their salvation." [1]

5. In many countries the nineteenth century saw the development of a positive national control over health and learning, by groups of individuals and the State. The benefits of education, medical attention and healthy surroundings were extended in some measure to all members of the community, while compulsory attendance at schools, compulsory notification of diseases and the public condemnation of insanitary dwellings prepared the way for further social experiments. To-day, as a result, certain minimum requirements are demanded in the public interest, from doctors, teachers, and municipal engineers, while people are forced in various ways to benefit from and help in their work. On the whole, the energies of private individuals towards improving the world's health and education have not thereby been discouraged. Rather the reverse has happened, for at no period in history has there been such a rally of voluntary assistance to health and knowledge. This control, imperfect though it is, has been an enormous benefit to the world. It would, of course, have been impossible without advances in the sciences of medicine, education, and engineering.

6. The twentieth century appears, in a similar way, to be seeing the development of a positive control over national economic efficiency, by groups of individuals and the State. Up to the present, comparatively few minimum requirements are demanded from producers in the public interest, and until the War, consumers were allowed almost perfect freedom. Nevertheless, although competition helps efficiency in many ways, its defects make it expensive, and economic science has begun to show that the energies of private individuals towards increasing the world's wealth are not necessarily discouraged by economic control. Rather the reverse may be expected, if practice is based upon economic teaching. Applied Economics [2] (or what-

[1] *Grammar of Politics*, p. 666.

[2] The function of applied economics is here considered to be the first of the three mentioned in the *Dictionary of Political Economy*, namely, "to designate the application of economic science to the solution of practical questions."

ever term may be preferred), of which Economic Control may be said to be a very important branch, is a young science.[1] Practical economic experiments are, however, being made in all parts of the world and vast quantities of material are becoming available for analysis. As Professor Marshall remarked in his "Principles," "What is needed, and what we may hope is coming in the near future, is a larger study of such schemes by the same order of minds as are applied to judging a new design for a battleship with reference to her stability in bad weather."[2] In view of the surprising growth of interest in the study of economics by all countries, there seems no reason to believe that advances in economic science will not be made in the twentieth century, comparable with those made in other branches of science in the nineteenth century.

7. In Russia, under the Tsars, the economic system was, on the whole, rigidly controlled in the interests of a few,[3] and as a result it was swept away. Experimental organisations were set up with little apparent reference to the teachings of economics. It is now gradually being realised that a new organisation must be built up through the use of scientific reasoning and imagination.[4] On the other hand, Australia, and to a lesser extent the other British Dominions, have been using the typically British methods of trial and error, and from their experiences, particularly those of the last fifty years, a vague, but nevertheless real theory of economic control is emerging. The simple teachings of *laissez-faire* have proved insufficient and experiments have been made in all directions. These, however, have been sporadic and unco-ordinated, and have therefore meant considerable wastage of effort.

[1] Though not younger than speculative economics. The political economy of Adam Smith consisted largely of applied economics.

[2] Marshall, *Principles of Economics*, Book I, Chap. IV, p. 45. Fifth Edition.

[3] Professor Sargent points out that colonisation experiments carried out by the Russian Government in W. Siberia, before the War, were a notable exception to this statement. An examination of the methods used should prove of particular interest to new countries.

[4] See Dobb, *Economic Development in Russia since the Revolution* (Routledge, 1928).

8. Australia has been practising the art of economic control in various ways with undoubted success, and much can be learnt from a study of recent developments in that country. A new land with vast areas to transform, demands adaptability and positive activity from its inhabitants, but in these circumstances, theories tend to develop less than elsewhere. Consequently, the older countries of Europe, and more recently the United States, have been relied upon to produce principles necessary to the practice of the art. Economic experiments are being made everywhere, but relatively old established communities, with their huge accumulations of capital goods, and vested interests, are often difficult laboratories for work on a national scale. In the British Dominions, it has not been necessary to set up experimental apparatus on a bench already crowded with plant in working order, and mistakes have not, therefore, had very serious consequences, while direct results have been capable of fairly accurate measurement. Methods have not been so empirical as is often declared, and the recent interest shown by the Dominions in economic theory is remarkable. Economic Societies, Chairs of Economics and Economic Commissions to advise Governments as to future economic policy, have been created in the last few years and have received considerable attention from the general public. Already it may perhaps be said, that in the British Empire, the movement towards Plato's ideal combination of political power and philosophy has gone further than elsewhere.

CHAPTER II

THE SCOPE OF ECONOMIC CONTROL

1. A study of the possibilities of world economic control appears at the moment too ambitious. 2. The nation as a unit of control. 3. Control by people rather than governments. CONTROL OF PRODUCTION: 4. Production and the mobility of resources between places and uses. 5–11. *The need for overcoming economic friction due to*—6. Inertia. 7. Ignorance. 8. Anti-social preferences resulting from—(*a*) The tendency of individuals to discount the future. (*b*) Self-interest versus the interests of the community. 9. The indivisibility of resources. 10. The gap between various possible forms of organisation in an industry. 11. The tendency of competition to lead to monopoly. CONTROL OF DISTRIBUTION: 12. The loss of material welfare due to unequal incomes. 13. The shortcomings of equal distribution. 14. A possible aim of control over distribution. 15. CONTROL OF CONSUMPTION. 16. Economic control and the importance of standards. 17. Conclusions.

1. A world in which humanity could control its enjoyment of economic welfare, deliberately and with accuracy, may be called a dream of the future, and although successful attempts have been made in various countries to regulate certain parts of economic machine, it seems that the economist must advise a steady haste, rather than a rapid bound towards the realisation of that dream.[1] He will admit that there is much truth in Professor Clark's opinion, that "Society does not know what it wants, or cannot devise means that will secure it; hence the lesser evil is to let individualism hold the field. Such a situation may be regrettable, but it is an evil from which we suffer less, on the whole, than from the meddling and muddling that result when governments act without knowledge. Such a lack cannot be remedied short of a course of social research and social education which may be a matter of generations." [2] He would, how-

[1] Professor Clark quotes, on page 63 of his *Social Control of Business*, the remark of Professor Ellsworth Huntington that "the ship of human progress formerly drifted with wind and tide, while now it has an incompetent child at the helm."

[2] *Social Control of Business*, p. 51.

ever, like to feel sure that this research and education are being carried out. The possibilities of world control were shown in the recent Economic Conference at Geneva, when representatives of fifty nations made recommendations, "not only unanimous but enthusiastic; covering the most far-reaching principles and proposals on the central questions of economic and commercial policy,"[1] but for the present purpose a study of such a broad field appears too ambitious.

2. According to our definition, control is to be in the interests of the community. There is, however, no organised economic community. The nation, on the other hand, is an organised political community, and in view of the growing economic activities of the State, it seems convenient to concentrate here upon the national point of view, though this does not mean that the large effects of national policy upon the world as a whole should be ignored. In view of the backwardness of most industries and individual firms, in the regulation of their affairs, it may even appear rash to take so large a unit as the nation. Nevertheless, business management has been fairly scientifically studied and a reasonable amount of knowledge for the control of individual business organisations is available to the business man.

3. It is true that when "the communal importance of any service is recognised it is natural to confide that service to the State;"[2] but national economic control, though of communal importance, need not be exercised solely by governments. Governments will play an important rôle. In addition, other associations of individuals can be, and are of great service to the community. The subject of discussion is therefore broader than that in Part II of Professor Pigou's *Economics of Welfare*, which "seeks to bring into clearer light some of the ways in which it now is, or eventually may become, feasible for governments to control the play of economic forces in such wise as to promote the

[1] Report by Dr. Stresemann on the work of the Conference, June 16, 1927.
[2] Burns, *Government and Industry*, p. 285.

economic welfare, and through that, the total welfare of their citizens as a whole." It is rather to individuals, and groups of individuals, whether organised as Governments, industrial or trade associations, co-operative societies, educational bodies or other voluntary associations of various kinds, that a knowledge of methods of economic control is especially necessary, in order that people may to some extent control the play of economic forces for the ends suggested by Professor Pigou. We have to take into account the complexity of modern economic society, and we have, as each problem arises, to decide between "more or less independent individualism, or more or less voluntary co-operation," or "more or less governmental regulation in the organisation of industrial and commercial processes." [1]

4. The product which economic control seeks to increase, economic welfare, is obtained by moving matter from place to place and by changing the uses to which it is put. The production and distribution of wealth implies, therefore, above everything, movement. This movement takes place in response to the desires of people, expressed through their willingness and ability to spend money for certain satisfactions. It results in a flow of energy along certain channels and a consequent flow of goods and services, which may be called the National Income.[2] The size of the national income, depended, said the last generation of economists, upon the interaction of the "factors of production," which included land, labour, capital and organisation. In what follows the size [3] of the income of a nation is taken to depend upon :—

(i) The quality and quantity of the national natural resources. (ii) The quality and quantity of the material capital, fixed and circulating, which has been accumulated

[1] National Industrial Conference Board *Trade Associations*, p. 3.

[2] The annual income of a nation may be defined as the means of economic welfare which becomes available to its citizens during a year. It consists of the total amount of production, allowing for the subjective and objective costs of production. In view of the difficulty of expressing this in terms of a common measure, economists have sometimes used money value as an index when making comparisons. This is obviously unsatisfactory, though perhaps better than abandoning all idea of measurement.

[3] The main factors affecting distribution are dealt with below, see par. 13.

at home and abroad by its citizens. (iii) The size and quality of its population (or as it may be called, its human capital). (iv) The amount and nature of its accumulated knowledge. (v) The degree of economic co-operation between producers,[1] between consumers, and between producers and consumers. (vi) The degree of efficiency attained in other directions, through, for example, stability, simplified practice,[2] standardisation, elimination of unnecessary bargaining. If we imagined that for a period all these factors were constant, we might say that self-interest would encourage men to change the position and uses of matter so that they would get the largest possible return for their efforts. In the absence of restrictions upon the mobility of productive resources between places and uses, if men always knew what they wanted and how their wants could be satisfied, if all men had equal opportunities to influence mobility, competition might tend to bring about the employment of men and goods in the most desirable way. Under the incentive of unsatisfied desire, the equal opportunities of all men to enter into the competitive field would bring about an approach to that state of affairs described by economists in which the values of the marginal social net products of resources in every use would be equal.[3]

5. In practice, economic life is not so simple as this. Even though it might be possible to start with a condition of affairs in which there were equal opportunities for all, under free competition, inequalities would soon arrive and would cumulatively increase in their effect upon the national income from generation to generation. Consequently, while

[1] Compare the speech of the Chairman at the First Ordinary Meeting of Imperial Chemical Industries, Ltd. " There is an asset in the balance sheets of companies which appears nowhere. . . . That asset of the loyal co-operation of those who are working with you day by day right through your organisation ; it is an asset of a magnitude which I can assure you far outweighs the millions which are put down for bricks, mortar and steel in the so-called assets of a great corporation."—*Times*, June 1, 1928.

[2] See publications of United States Dept. of Commerce on this subject.

[3] See *Economics of Welfare*, Pt. II, Chap. II, p. 120 : " The value of the marginal social net product of any volume of resources in any occupation is the money measure of the purchasers' desire for the difference made by the marginal increment of those resources so employed to the sum total of economic welfare."

it is true that social reformers are apt to disregard the healthy incentives afforded by competition, and to over-emphasise its bad results, it is indisputable, when the facts are studied, that a positive attempt to remove the natural and other barriers, which prevent a really satisfactory mobility between economic resources, is vastly more important than a negative reliance upon the very doubtful natural tendency of resources to flow where they are most needed by society. Before we can use customary economic hypotheses in practice, economic friction must be considerably lessened. A brief examination follows, therefore, of some ways in which economic friction affects the requirements of production classified above.

6. Modern economists insist upon the importance of studying the dynamic, rather than the static, organisation of society, but there is one group of obstacles which has been rather overlooked: those due to that amazing property of inertia possessed by human beings, the strength of which so bewilders enthusiastic new-comers into the realms of business. The complete removal of inertia is economically undesirable, as its presence has a steadying effect upon economic activity, but in so far as it prevents certain necessary or desirable things from being done, and enforces a slavish adherence to antiquated and clumsy methods of action, economic loss results. It is, perhaps, the greatest single cause of economic friction, and is naturally more noticeable in the older established countries of the world. To ignore such a force as this when examining the driving power of competition, is rather like testing the starting powers of a car with the brakes full on. Even inertia which is economically wasteful must not, however, be condemned as wholly bad, since it may be the result of activity in other spheres. The fact that commercial men are not actuated solely by the desire to make money, is often another surprise to new-comers into business. Nevertheless, with the growth of impersonal large-scale joint stock companies, the socially bad effects of inertia are becoming more pronounced. In the huge complex modern businesses, men quite frequently create positions for themselves in " corners " of their firms,

where, although their salaries are not sufficiently high to call the attention of the management to the state of their efficiency, the work is not hard and little comes along to disturb the "noiseless tenor of their way."[1] Again, improvements in organisation, however badly they may seem to be needed to an impartial observer, or even to the management, are repeatedly frustrated by the petty complaints and individual jealousies, prejudices and suspicions of the members of the staff who would be affected by the change. The complaints and suspicions are not always altogether unwarranted, but they prevent progress. Anything that will remove them, with the grounds upon which they are based, is likely to be of service to the community. There is clearly scope for some force which will overcome the listlessness of so many men, which will arouse their interests and enthusiasm, which will ensure that effort is rewarded, and will show more clearly the effects, upon the community in general, of the inertia of individuals.

7. The second main group of obstacles to greater mobility of resources consists of those due to ignorance, the effect of which has also been under-estimated by most economists. "A flowing stream of resources is continually coming into being and struggling, so far as unavoidable costs of movement allow of this, to distribute itself away from points of relatively low returns towards points of relatively high returns. Success in this struggle is interfered with by imperfect knowledge on the part of those in whose hands the power to direct the various branches of the stream resides."[2] It might also be added that there is an enormous quantity of resources which lies dormant on the bed of the stream and has not yet entered the flow owing to ignorance as to the use, whereabouts or possibilities of those resources. The knowledge of a subject which a human being can obtain

[1] Many forms of organisation do, of course, considerably accent this tendency, especially those used by the Government in many branches of the Civil Service and by certain old-established large firms. By a judicious selection of methods at the outset, it would be possible in practice to avoid bureaucracy in Government business.

[2] *Economics of Welfare*, Chap. VI, p. 133.

in a lifetime is infinitesimal. It is therefore to be expected that an attempt to make a scientific choice of the best way to employ resources, and of the place where they should be employed, so as to produce a maximum of economic welfare, would prove extremely difficult in practice and might even degenerate into a gamble. Our knowledge of the forces which we use in production is small; we do not yet, for example, understand the nature of electricity, and though the use we make of it is of prime importance, we cannot fully realise its possibilities without further knowledge. Again, we often invest our savings in concerns of which we know little, run by people of whom we know less. We have to put our trust in practical business specialists of various kinds, who although they may be encouraged to efficiency through competition, have very wide limits within which they can play upon the ignorance of the public. Some of us spend a lifetime acquiring masses of knowledge which is of little use compared to some, even slight, acquaintance with the pressing needs of the time. The State, if it had to decide under the same conditions as the individual, as to the use of productive resources, would no doubt, for the reasons usually offered against the extension of State industrial activities, bring about even less satisfactory results than the individuals. Conditions need not, however, be the same as those facing the individual, since the State, if it begins its task on the right basis, can draw upon the best brains of the country and can obtain access to vast stores of knowledge which would be closed to even the wealthiest individual. In the past, the State has amassed all sorts of first-hand information on economic subjects, in the Reports of bodies such as Royal Commissions or Departmental Committees, but the ignorance or lack of interest of the general public concerning their recommendations has allowed Governments to evade the necessity of acting for the benefit of the community. In recent years some of the most important contributions to applied economics have been made by groups of individuals appointed by Governments, by trade or scientific associations, or even by the individuals themselves on account of the interest they feel

in the matter, or because of their special experiences.[1] There are summitless mountains of ignorance round which we have to find our way, and organised collective effort is likely to produce better results than unco-ordinated, and frequently selfish, sallies along the path of experiment. Further, we have to meet not only fixed obstacles but those which are arising continually through causes over which we may, or may not, have control. The searchlight of knowledge can help us to deal with these effectively or to discount their effects, and thereby make economic life more certain.

8. The third group of obstacles are those which arise owing to what may be called anti-social preferences, the preferences shown by most people for certain anti-social activities. For example, the main concern of a business is usually that of making money, and quite frequently the gain of an individual firm or group of firms is a social loss. Smoky factory chimneys, the payment of low wages, and the wasting of natural resources are all a loss to the nation, though they may help individual businesses. Again, the consumption of certain kinds of goods, or continual unnecessary changes in demand, may result in national economic loss. There are two main kinds of anti-social preferences. First, there is the tendency of individuals to discount the future, to prefer present enjoyment to a guaranteed equal amount of future enjoyment, to starve

[1] For example, the Reports of the following :—The Coal Commission of 1925, Departmental Committee on Co-operative Selling in the Coal Mining Industry 1926, Imperial Economic Committee, Empire Marketing Board, Imperial Shipping Committee, Committee on Trusts 1919, Balfour Committee on Industry and Trade, Research Publications of Economics Branch of Ministry of Agriculture and Fisheries (those on Marketing and Co-operation particularly), Committees of Ministry of Reconstruction; also *The Third Winter of Unemployment* (P. S. King, 1923), and *Is Unemployment Inevitable?* (Macmillan, 1924), reports of inquiries undertaken by economists and business men; *The Facts of Industry*, prepared by an unofficial Committee consisting of employers of labour, trade-union leaders, and experts in economics, accountancy and law (Macmillan, 1926); *The Industrial Outlook*, an account of probable industrial tendencies after the War, by University lecturers and research workers (Chatto & Windus, 1917); *Labour and Capital after the War*, a discussion of " what was present to the thoughts of representative men and women with regard to the future relations of employers and employed " (Murray, 1918); publications of the Garton Foundation; publications of League of Nations and International Labour Office, and of such bodies as the International Institute of Agriculture ; reports by Research Depts. of Political Parties.

the provision for future needs. Secondly, there is the tendency of individuals to follow their own immediate interests rather than those of society. It is frequently rather difficult to distinguish the effects of these preferences from each other. For example, the destruction of forests, the overworking of human capital, and the lack of provision for the future in all kinds of ways which become so obvious from time to time, are often due to plain selfishness or to the feeling of the individual that a sacrifice on his part will not be worth while, unless others follow his example, as his efforts will be swamped by the overwhelming force of the majority.[1] It seems that the second type, the preference to study private rather than public interests, is of greater importance. A man when acting in his own interests may cause a loss to society because of the frequent divergence between, what is technically called, the Marginal Social Net Product and the Marginal Private Net Product from the investment of certain resources in production.[2] Even the unselfish individual may cause this harm because he does not know what are the interests of society, or because he may think that his single effort will not benefit society nearly as much as it will damage his own interests. If, under present conditions, the majority of individuals are to be relied upon to do their best for society, action for the public benefit must either be profitable for them, or it should not, at any rate, prove seriously detrimental to their interests. In economic terminology, the marginal social net product and the marginal private net product from investment in an industry must be as nearly as possible equal. Therefore, if the net return to the nation from an investment in certain resources is likely to prove greater

[1] Compare the feelings of the man who obeys the request of the authorities at an open-air sports meeting and sits down, while the majority of the spectators remain standing.

[2] The conception of the economist is, that after allowing for costs of movement between places and occupations, the national dividend cannot reach the maximum attainable unless the values of the marginal social net products of resources in all uses are equal. When they are equal the dividend need not attain an unequivocal maximum but only a relative maximum. "All of the relative maxima are, as it were, the tops of hills higher than the surrounding country, but only one of them is the highest hill-top of all" (*Economics of Welfare*, Part II, Ch. III).

than that to the individual investor, it may be desirable to encourage investment in those resources in a positive manner by increasing the return to the investor; if the net return to the nation is less than that to the individual, it will tend to make the marginal social net product of resources in their various uses more unequal and should therefore be discouraged. Thus the need for this equality demands some collective control of the various actions necessary to production.

9. A fourth group of obstacles to mobility exists owing to what may be termed the "indivisibility," or inconvenient division of the resources themselves. It may be difficult to split them up into convenient sizes, or to put them to convenient uses, or to use them at the time when they become available. To take a simple example: a carpenter when he is cutting out sections of wood for an article he is making, has to face the problem of dividing his materials economically into sizes, and uses, and over time. In order to save waste, he can, perhaps, simplify the outline of his article so that he will be able to use every part of his wood, or if necessary, he can retain the complicated outlines, but make an effort to mark them out in such a way as to avoid waste. He will not trouble about the problem greatly, if he can find use for most of his odd pieces of wood in making articles of a different kind, though as time goes on he may find that he has more odd pieces than he can use, or that there is no longer any demand for the articles into which they are made. He will then have to turn his attention to one of the two waste-saving methods mentioned, or will try to dispose of his pieces to some other industry. In a large wood-making concern there will clearly be wider opportunities for a centralised control over the wood used. In a similar though less simple way, it seems that there is an almost unlimited scope for a collective control over the productive resources of an industry and of a nation. For example, human capital would be more mobile if a man knew that his dependents could move with him on his migration elsewhere; if the individual labourer could be made more adaptable; if, during the busy period of one

trade, the labourer unemployed through a slack period in another trade could be absorbed. In so far as such indivisibility of resources can be removed without unreasonable cost, the size of the national income will be increased.[1]

10. Even after a complete removal of these four kinds of obstacles, the national income would not be at its maximum. Several arrangements of resources are possible in an industry, each of which will result in a maximum product.[2] The difficulty involved in moving from one form of organisation to another may be too great for individual effort. In this connection the report of the Royal Commission on the Coal Industry in 1925, is enlightening. There were several branches of the industry in which a larger scale organisation was considered desirable by the Commission. The initiative of the industry itself had not been sufficient to bring this about. "There are undoubtedly serious obstacles which in individual cases hinder fusion. Which of the old concerns is to be predominant in the new combination? Which of the directors and managers are to be displaced? What is the valuation to be put upon each of the properties? How much above its market value at the moment are the promoters of the new scheme ready to pay to the owners of an adjacent colliery, rather than surrender the completeness of their project? And, a not unimportant factor in some cases, is it certain that the owners of the royalties will be ready to grant the leases, longer in time and more extensive in area, that may be necessary to make the larger enterprise remunerative? When to all these difficulties is added the *vis inertiæ* which hampers all new projects in all old-established industries, we have an explanation of the slowness of the movement."[3]

It can be said that the community would benefit, if, with collective, voluntary and State aid, a bridge could be built over the large gap which often exists between present

[1] The existence of a trade union or limited liability company with monopoly power, frequently prevents the division of resources into desirable sizes. This question is discussed in Part III, Chaps. IV and VIII.

[2] See end of footnote 2, page 18.

[3] Report of Royal Commission, Coal Industry, Part II, Chap. V, p. 59.

improved forms of organisation in individual firms and industries, and industry as a whole.

11. The foregoing examples of economic friction may arise under conditions of free competition or monopoly, but in practice free competition between economic units rarely exists. Owing to its imperfections, it carries with it the seeds of its own destruction. Frequently, either, after a period of destructive and wasteful competition, only the "fittest" firm survives and has a monopoly, or else the competitors combine and exert some sort of monopoly power.[1] The inquiry of the National Industrial Conference Board [2] divided the activities of Trade Associations into three kinds. First, those which suppress competition and carry out "unfair" practices, such as boycotting, restriction of production and the "squeezing" of the consumer; secondly, those which may or may not be socially beneficial, as, for example, the collection and interchange of statistics and information, standardisation, joint purchases of materials, or the interchange of patent rights; thirdly, the other activities which are almost wholly beneficial, such as research, education of members, co-operation in advertising, insurance, and labour negotiations, and representation in public matters. There is clearly scope for organised authority to intervene strongly in the first type of activity and less strongly in the second. In the third type greater freedom should be allowed, for the socially desirable functions of trade associations are only just being explored.

12. The processes of production afford the means to economic welfare. It is only after this wealth has been divided among individuals and consumed by them, that economic welfare results. It is therefore the function of Economic Control to ensure that the product of industry is divided and consumed according to the best interests of

[1] See *Report of Committee in Trusts*, 1919. Cmd. 9236, p. 11. Majority Report: "... we are satisfied that Trade Associations and Combines are rapidly increasing in this country, and may within no distant period exercise a paramount control over all important branches of British trade."

[2] The Board describes a Trade Association as "An organisation for mutual benefit, composed of independent business concerns engaged in the same kind of industry or trade, and designed primarily to affect the conduct of that industry or trade."—*Trade Associations*, p. 7.

the community. If it is assumed, first, that the size of the flow of goods and services brought into the world by production is not adversely affected by changes in the distribution of wealth, and secondly, that all men have equal tastes and equal powers of enjoyment, the maximum amount of economic welfare would result from a complete equality in the distribution of real income among persons. In so far, however, as these assumptions are not true in practice, our belief in the desirability of complete equality must be modified. The degree of truth in the first assumption, can, in practice, be ascertained more easily than in the second, for it is impossible to measure accurately the inequality of people's tastes and powers of enjoyment. Few thinkers deny that there is an enormous wastage of economic welfare due to the present unequal distribution of wealth, and equality would mean that everybody's most urgent needs would be satisfied before luxuries could be enjoyed by anyone. The decision as to what should be done to encourage equality and how far it is desirable, can only be made after each separate proposal has been examined from the point of view of the time and place at which it is to be applied, and after its probable effects upon the flow of production have been discovered.

13. The present form of production is dependent largely upon the present distribution of wealth, and any change in distribution will have correspondingly varied effects upon production. Against the obvious advantages of equality must be set the difficulty that, unless new altruistic traits were to appear in human nature, a completely equal distribution of wealth would probably remove a considerable part of the stimulus towards efficiency in production which is provided by the present state of affairs, inequitable though it may be. Further, the inequalities of people's tastes must be realised. The advantages enjoyed from a given income vary from one individual to another. In the existing stage of human development it seems that *more* equal opportunities to produce goods and services, and *more* equal distribution of the fruits of production is likely to have a considerably greater effect in increasing economic welfare

than continual bickering over the advantages and disadvantages of complete equality. A standard minimum of real income for every family, in return for the fulfilment by its members of certain minimum conditions of existence in society, and then, whenever possible, payment according to the amount of useful or desirable work done, is far more likely to help than hinder the size of production. Unfortunately, the average man to-day, if he is receiving a sure income without any effort on his part, does not put his best into his work. Partly owing to the unsatisfactory organisation of industry, in which so much effort is wasted, and partly owing to his outlook on life, the prospect of his wages is, often, almost the only satisfaction that a man gets from his job. Therefore, until industrial organisation and education are improved, the most important incentive to industry will be payment of wages, salaries or commission, on a system which combines the advantages of payment by results and payment according to the effort put into work. This, unsatisfactory though it may be, would mean considerably less inequality in distribution, while the resulting measurement of product and of work done, could be the beginning of a scientific system of keeping the human cost accounts of industry. It is obvious that a man should only be employed if he is paid sufficient to enable him to secure the complete necessaries of life, as otherwise the employer is definitely using up the human capital of the community, and probably making a profit in consequence. If the man is not capable of earning his maintenance, he should not be employed; his deficiencies should be discovered, and remedied as far as possible. The line between payment in industry and payments for relief, emphasised by Sir Wm. Beveridge,[1] should be kept clear.

14. A possible aim of economic control, in so far as it affects distribution, is to secure a national minimum standard of life, and to ensure that income received by individuals above this minimum should, on the whole, be paid according to social economic worth. A corollary to this, so often ignored in arguments, is that individuals should as far as

[1] *Unemployment*, p. 232.

possible have equal opportunities to show their worth as producers. To achieve this, it would be necessary to help all members of the community to obtain health, education and training.

15. After distribution, wealth must be consumed, and it is in their effects upon the consumption of wealth that the inequalities of tastes and of powers of enjoyment which were ignored in our second assumption (par. 12) are most noticeable. These inequalities, though difficult to measure, definitely result in avoidable instability in the demand for certain types of production, particularly in those branches producing fashion and luxury goods.[1] Improved methods of education and the effects of a national minimum income would help people to spend their money incomes more effectively. Extremes of wealth and poverty would be greatly lessened and consumption would become more stable, with consequently beneficial effects upon production. In addition, through the same kind of obstacle that prevents satisfactory production (*e.g.* ignorance, inertia, or selfishness), consumption by individuals is often not in the best interests of the community. This is due to the type of goods and services they consume, and secondly to the time when they consume them. It may therefore be desirable to control the consumption of certain types of luxuries, and of goods which are not worth their cost of production, and to prevent large demands for certain other goods in times of shortage. This branch of economics is relatively unexplored.

16. The scope of economic control is, therefore, to correct the deficiencies of competition in one part of the economic machine and to ensure that the benefits of competition will be enjoyed as well. It extends over all branches of economic life, and involves an awakening of people's interest and intelligence, a putting aside of certain habitual methods of thought, a better allocation of persons and things to the work of production, and the laying of a solid foundation

[1] It is of course also true that fluctuations in the supply of commodities, due to climatic and other reasons, produce instability. Research into productive methods is helping to eliminate them, though very much remains to be done in this direction.

upon which co-operative efforts will be able to withstand the preliminary vibrations resulting from the introduction of new methods into an economic unit. It involves, above everything, the setting up of standards, from which scientific measurement can be made. In view of the large margins for uncertainty which have to be allowed in all economic experiments, the basis of these standards will necessarily be somewhat vague at first, and no doubt such adjectives as "reasonable," "fair," or "sufficient" will have to be used. A study of experiments in the Dominions will show that in spite of the arbitrary standards used, positively good results can be obtained, and the way to less inaccuracy be opened.[1] The subjective feelings of the ordinary member of the community as to what constitutes a "reasonable" standard of life is being given an objective practical form.[2]

17. The Economic Conference of the League of Nations reported, in May 1927, that: "The main trouble now is neither any material shortage in the resources of nature nor any inadequacy in man's power to exploit them. It is all in one form or another a maladjustment—not an insufficient productive capacity, but a series of impediments to the full utilisation of that capacity. The main obstacles to economic revival have been the hindrances offered to the free flow of labour, capital and goods." It is the task of the economist to show how these obstacles

[1] Of experiments in Great Britain the same may be said (*e.g.* Control of Currency by the Treasury and Bank of England, of Wages under Trade Boards Acts, of Dividends under Railways Acts, also in those Voluntary Profit Sharing schemes which have been successful).

[2] An interesting set of essays which shows the growing importance of Economic Control in the minds of American economists was collected by Professor Tugwell in 1924 on the suggestion of the American Economic Society. About a dozen economists were asked to write an essay upon what they considered to be the most important question in economics to-day. Of the thirteen essays, six of the titles were as follows:—"On Measurement in Economics," "The Socialising of Theoretical Economics," "Economic Theory and the Statesman," "The Organisation and Control of Economic Activity," "Economics, Science and Art," "Experimental Economics." Professor Wesley Mitchell, in the first essay in the book, headed "The Prospects of Economics," wrote the following:—"In Economics as in other sciences we desire knowledge mainly as an instrument of control. Control means the alluring possibility of shaping the evolution of economic life to fit the developing purposes of our race."

can be removed from the economic machine. The methods he advises may be applied to a single nation, to a unit such as the British Commonwealth of Nations, or even to the whole world.

PART II

CONTROL OF THE NATIONAL INCOME

INTRODUCTION

THE First Part of this book has described various forms of economic friction and has shown the need for their removal. The Part which follows contains a classification of methods which can be used to overcome the effects of this friction upon the production, distribution and consumption of wealth. Most of the methods agree with the teachings of modern economic theory.

The methods mentioned in the first two chapters help to overcome ignorance, inertia, anti-social preferences and indivisibility of resources. They can be used to increase the product from the factors of production mentioned in Part I [1] (*e.g.* natural resources, material and human capital, co-operation, knowledge and certain other factors). The third chapter deals with methods which overcome the effects of monopoly. Chapter Four classifies methods which will lessen inequality of incomes, without adversely affecting production. One or two ways of assisting a less wasteful consumption of wealth are also mentioned. In the final chapter is a discussion on the advantages and disadvantages of tariffs and bounties as a means of overcoming economic friction.

Methods are included because of their scientific value and not with any desire to extol the virtues of Free Trade or Protection or of any political party.

No country, whether new, old, or in the prime of life, makes the best use of its productive resources. Since Australia, the country to which more particular attention is paid in this book, is distinctly young,[2] the point of view of young countries is especially considered. It must not,

[1] Pt. I, Chap. II, par. 4.

[2] In 1836, one of the founders of Melbourne, which is now a city with almost a million inhabitants, said, "Here is a place for a village."

however, be thought that most of the methods described are fundamentally inapplicable to older countries. The difference of treatment should only rest upon the emphasis of certain points. The lands of Western Australia, for example, are so obviously undeveloped that certain forms of collective effort are strongly recommended for that State, by persons who would frown upon similar collective organisation in, say, the British coal, cotton or iron industries. Also, in a new country, the need for positive action is more obvious and the difficulties of filling that need by collective effort are not so great. Nevertheless, the need may sometimes be more urgent in older countries though it may be somewhat obscure, for the generally higher *average* level of efficiency in new countries, and the small number of firms in individual industries tend to make bad organisation more prominent. With modifications, the economic problems of new and old countries are fundamentally the same ; both have to produce wealth from relatively undeveloped resources and distribute it among relatively undeveloped people.

CHAPTER I

THE REMOVAL OF IGNORANCE AND INERTIA

1–20. IGNORANCE AND INERTIA AS THEY AFFECT THE PRODUCT FROM: 1 and 2. *Natural resources.* Inquiry, and publication of the results of that inquiry. 3. *Material capital.* The need for disclosure of facts. 4–8. *Human capital.* Education, training, organised labour exchanges, an industrial survey, labour and other industrial legislation, payment according to social economic worth, all help towards an economic use of human capital. 9–14. *Co-operation.* 10. Co-operation among producers—trade associations and combines. Legislation and publicity. 11. Co-operation among employees—Trade Union Registration; grant of privileges subject to duties. 12. Co-operation between employers and employees. Methods described in sections 4–8. 13. Representation of labour on management, and co-ownership. 14. Industrial and Works Council. 15–20. *Other factors affecting efficiency.* 15. Stability can only be gained through knowledge of the future and adaptability. 16. Removal and transfer of risks. Investment trusts; health, unemployment, old age and widowhood insurance. 17. Business forecasting. 18. Adaptability helped by "simplified practice." 19. And by standardisation. 20. And by preventing unnecessary bargaining. Standardisation of contracts, stable tariffs, standard commercial treaties.

1. The natural resources of a country may be of small immediate value, first, because their existence is unknown or ignored, and secondly, because little is known about their use or because no efforts are made to ensure that they are used economically. The main remedy for this state of affairs, as for many other economic problems, is publicity in its widest sense; a broadcasting of information based on the collection and sifting of existing knowledge and research, in a manner which will appeal both to the general public and to those connected, directly or indirectly, with particular industries. The first essential is that the information should be obtained with the co-operation of individual industrialists, scientists, engineers and business men; and secondly, that the scheme should be supervised and encouraged in the interests of the community, so that all information available may be obtained. A purely voluntary scheme would be impossible, though use should be

made of voluntary information. Collection of facts by the Government need only be resorted to where the necessary facts were not forthcoming under normal circumstances.

2. The bodies appointed might be Committees, Commissions or Corporations. Their work would be of three main kinds :—(1) To assemble existing data concerning the occurrence of national mineral wealth, the various types of soil, the crops grown, the prices realised from them and their costs of production, facts about industries dependent upon national resources and particulars of natural resources of other countries. (2) To centralise information as to the the use of minerals, the likelihood of their occurrence, the types of soil and climate required by the main crops and the uses to which these crops and minerals can be put. (3) To co-ordinate the results of 1 and 2 and indicate economic waste in the use of minerals, or soil, and to suggest how such waste could be remedied. The degree to which each kind of work should be carried out, would depend upon the extent of its success in practice, as the cost of obtaining the information would have to be weighed against the direct advantages obtained from its use. But, as has been found in the case of information concerning tariffs, " it is not sufficient merely to collect and print the pertinent facts, however fully this may be done." [1] Information must be put " into a form and compass which will make it comprehensible enough to be practically serviceable." [1] Although many countries are already carrying out some of this publicity work, there is little co-ordination between the bodies engaged in its various branches. Excellent reports are published by Commissioners, Committees and Government Departments, but there is no clearing-house for the information they contain and the Government in power often ignores their warnings and recommendations. Also, apart from those containing the results of research into technical

[1] *Making the Tariff in the United States*, T. W. Page. Chap. VIII, p. 198. McGraw-Hill Book Co. See also G. C. Henderson (Yale University Press, 1924), *The Federal Trade Commission*, p. 335 : " If the Commission were to issue reports of actual controversies which were really informative and readable, and to give forcefully the reasons which led them to a decision, these reports would, I believe, have an influence far beyond the immediate controversy."

problems, reports do not usually appear regularly. A permanent body, the membership of which might nevertheless be varied quite frequently, would possess the advantage of recognised authority and experience, and could in course of time become the usual source of information. Again, while the quality of being "serviceable" may help to overcome ignorance, if some of the effects of inertia are to be removed, the reports must also be attractive and stimulating. Statistics, for example, should be made live forces, instead of mere collections of figures which only become animate after much hard coaxing.

3. Ignorance and inertia also obstruct the flow of desirable investment in material capital. In the methods suggested by the last paragraph, the emphasis was upon organised effort; in this, legislation becomes important. Particulars of machines, factories, or industrial efficiency are not nearly so easily obtained as those of natural resources. Accordingly, while the work of trade associations, or scientific and industrial research departments and reports of impartial Commissions are invaluable, the records of promoters, details of new concerns, full and regular returns from businesses, and similar information could only be obtained as the result of Acts of Parliament.[1]

It should perhaps here be noted that it is only rarely in the interests of the community that information obtained should be suppressed on the ground that it might help competitors of the individual supplying it.[2] Business secrecy of most kinds, it has been found in America and elsewhere, does not pay, and the small loss caused to an individual, through the publication of some of his information, would usually be more than counterbalanced by the benefits he received from the centralisation of industrial experience and the opportunities he would have at any moment of finding out the facts of industry.

4. In preventing the economic use of human capital,

[1] *Facts of Industry*, Chap. IV. Reference should also be made to the Report of the Company Law Amendment Committee, 1925–6. Particularly the following paragraphs: (J) Returns. (L) Accounts.

[2] The names of business houses would, of course, only be included in publications, with the consent of their directors or owners.

ignorance plays a terrible part. An employee rarely knows the kind of job which will suit him best, and after he has decided to take up some line of work, particulars of the nature and extent of the demand for that work may either not be available, or not have been discovered by him. Also, a man with sufficient capital can become an employer when he wishes, whatever his knowledge, provided he fulfils certain minimum conditions contained in Factory or Shop legislation. As a result of this, we find, in many branches of business, the blind leading the blind, with much argument, strife, inefficiency, and confusion in industrial relations. Ignorance is the principal barrier to mobility of labour. It is an important barrier, not only because it results in unemployment, but also because it means unscientific employment and waste of human capital.

5. Remedies are many.[1] The most important for overcoming the ignorance of the worker is that of education and training. The education should be sufficient to enable a person to form a reasonable idea of his vocation in life. After his choice has been made, technical training could be made compulsory according to regulations laid down by the industries concerned, under the supervision of the State. This would involve better educational methods and the passing of apprenticeship laws. Mobility from one form of industry to another need not be restricted, as the training undergone in one industry could be taken into account when entry into another was sought. Another remedy is the foundation of a connected system of Labour Exchanges, organised with the aim of creating a state of affairs in which no man would think " of applying anywhere else either for workpeople or employment and would not get either if he did." [2] There is, of course, a wide scope for many kinds of subsidiary, though nevertheless important work, by these exchanges.

6. Another remedy is a study of the reasons why industries are unable to pay a " living wage " or a " reasonable wage " and also of the effects of underpayment and overwork upon workers ; that is to say, comparative studies of

[1] See Sir W. Beveridge, *Unemployment*, Chaps. IX, X. [2] *Ibid.*, p. 198.

industrial management and efficiency, industrial fatigue, and health in industry. After the results of existing knowledge had been collected and further research had been made, it would be possible to tighten up organisation by advice and propaganda, while in certain cases compulsory legislation enforcing minimum standards of payment might be passed. This would help to overcome the failure of employers to make proper provision for their staffs, or to introduce new methods because they think their money will be wasted, and of employees to put their best into their work because they think their efforts will be wasted. When human capital refuses to work, it is in the interests of the community that the causes underlying the stoppage should be examined by an impartial body, the results of the examination made public, and action taken to see, either that the industry affected is removed from the industrial field or that it is maintained in efficient working order. It is useless to call upon discontented people to face economic facts when economic facts are not clearly visible.

7. These methods would lessen the effects of inertia in the use of human capital, especially if, after the provision of a minimum standard of life, the principle of payment according to social economic worth [1] is accepted as a principle in industry. The principle would be hard to apply fully in practice, but its plain acceptance would lead to a desire to know more, and to do more, on the part of employers and employees. Inert employees may be dismissed ; inert employers may sometimes manage to carry on their business at the expense of their employees. If, therefore, the majority of firms in an industry could agree upon minimum standards of efficiency in management and labour, it might be politically, and it would certainly be economically desirable, to bring in legislation which compelled the inefficient and thoughtless employer to give as good wages and conditions to his employees as his competitors.

8. It appears, therefore, that from the purely economic point of view, human capital, like material capital, must

[1] The social economic worth of an individual may be defined as the extent of his contribution to the national income.

be kept in proper working order, and must have sufficient food and attention. It must not be overworked or badly treated, and if the best production is to be obtained, its performance must be measured accurately. The foundation of such a policy is knowledge. As our moral ideas do not admit that human capital when worn out or unadaptable for further uses should be thrown on the scrap-heap, the cost of maintenance during inactivity must be discovered and allowance made in the accounts of either the industry concerned or of the nation. Methods for ensuring this are discussed elsewhere.[1]

9. Some co-operation between the competing sections of the economic world is essential to progress and is frequently prevented by ignorance and inertia. Competition, it is usually considered, is necessary to secure efficiency, but so long as efficiency is not impaired, the greatest advantage to the community will result if industrialists and business men work together. Co-operation may be divided into three classes: that which exists between producers, between producers and consumers, and between consumers themselves. It is mainly the first of these classes which is dealt with here. Co-operation among producers may take place between employers in one particular industry or in several industries, by means of what are usually called trade associations and co-operative associations; between employees in one particular craft or industry or in several industries, through trade unions; between employers and employees, as in Joint Industrial Councils or Works Committees.

10. The United States is the outstanding example of a country where the realisation of the need for control of trade associations has proceeded furthest, but it is also, perhaps, the country where the possibilities of these associations are being most widely explored. Trust legislation may be so framed as to retain the advantages of co-operation and remove the dangers of monopoly.[2] Such a remedy, however, ignores the circumstances which often arise, in agricultural and other industries, when, although many producers wish to obtain the advantages of co-operation, a few dissentients

[1] See Chap. IV, pars. 4–7.

[2] See Chap. III, below.

are enough to prevent any scheme of co-operation from working satisfactorily. For example, in 1926, a Departmental Committee was set up to inquire into Co-operative Selling in the British Coal Mining Industry. The Majority Report states:[1] "We are not prepared to contemplate anything in the nature of general compulsion, but we think it would be reasonable for Parliament, in cases where it is only the opposition of a small minority that prevents the setting up of a marketing organisation for a particular district, to compel them to come in, provided the circumstances are such that their rights and interests can be effectively protected. . . . We recommend legislation to adopt and apply Part I of the Mining Industry Act, 1926, so that a minority of, say, 25 per cent. or less, calculated on a tonnage basis, can be compelled to come into a scheme for a district marketing organisation, backed by a 75 per cent. majority, and proved to the satisfaction of a tribunal to be a scheme for the more efficient marketing of coal, consistent with the national interest and fair and equitable to all its members." Another method of encouraging co-operation is the passing of enabling legislation which will aid the formation of societies and help them to retain their membership. Inquiry and publication of facts dispels ignorance as to the advantages of co-operation, while encouragement by legislation removes the effects of inertia and other obstacles.

11. Trade Unions can have many social advantages, perhaps the chief of which is the encouragement they are able to give to co-operation between employers and employees through collective bargaining. Also, from an administrative standpoint, if unions are soundly organised, it is a great saving of time for an employer to know that a man who is a member of a certain union possesses the qualifications necessary for his work and that he can obtain further men from a union office. They may be useful in stimulating employers to adopt the most up-to-date working conditions, and can supply much industrial information which is of use to the country as a whole and to employers. The best encouragement to unionism is clear and satisfactory

[1] Cd. 2770, p. 25.

legislation; an insistence upon registration which gives privileges subject to certain duties. A convenient form of compulsion could be brought to bear on a union which refused to carry out its duties, through the cancellation, after an impartial inquiry, of its registration and consequently of its privileges.

12. The methods already suggested for removing obstacles to the satisfactory use of human capital, that is to say, the examination of the reasons why a living wage cannot be paid, inquiry into industrial disputes by an impartial body, insistence upon payment according to social economic worth where possible, and encouragement to desirable trade organisations, will naturally tend to bring about co-operation between employers and employees; but, if thorough co-operation is to be obtained, several methods must be applied simultaneously. First, wages must not be allowed to fall below what, according to modern standards, is considered to be the minimum wage upon which a man can live decently. The amount of this living wage is admittedly vague, but unless labour obtains something approaching to it, co-operation of employees will be weak. The reasons for this lack of co-operation are partly psychological; they are, however, economic, in so far as they are based on the belief that an employer should pay an employee sufficient to enable him to be in the same general physical condition after employment as he was when he first entered the employment, with reasonable allowance for loss of activity due to advance in age. This can be done to a certain degree, by the declaration of a basic wage of money or, in certain cases, of its equivalent, less than which no man shall be paid.[1] If the declared minimum wage is too high, industry will be handicapped seriously; if too low, its effect will be almost unnoticed. One way of testing the possibility of establishing a wage between these extremes, is the detailed study by an impartial committee, at first hand, of experiments in various countries.

[1] Except under exceptional circumstances, a full living wage could not be introduced suddenly into a country. Standards could be raised from time to time, as those unemployed by the policy were absorbed into industry.

13. Secondly, co-operation of employees will be obtained, if their representatives have sufficient voice in the management of the business. The manager must naturally have the ultimate control, but employees are demanding some influence over the basis and prospects of their employment, and can often make useful practical suggestions. A third method is bound up with the question of payment according to social economic worth. It may be said that in a period when industrial fluctuations are not violent, after expenses have been met and reserves made, and after shareholders have received a fair interest on capital plus an allowance for risk, the profits which remain have been earned by all members of the firm. Unless all members, therefore, receive their share of these profits, those who think about the matter, at any rate, will not feel satisfied with conditions, and failing some other higher incentive will not put their best into their work. A scheme suggested by a New Zealand employer, Mr. H. Valder, and partially attempted through legislation, is of interest in this connection.[1] The idea behind the scheme is that of "paying the owners of capital a sufficient pre-determined rate to attract the required capital, and dividing the surplus profit amongst the active agents of its production, according to the measure and value of the service contributed." A fourth method is that of ensuring that the risks of industry are spread in a manner which does not cause friction between employers and employees. This question is dealt with below.[2] It should, perhaps, be repeated here, that the value of these methods for bringing about co-operation lies in their simultaneous application; a fact often overlooked both by their advocates and by their critics.

14. Joint Industrial Councils and Works Committees can help to secure co-operation between employers and employees. They are, however, very handicapped in practice as there is no binding force behind their decisions. One of the great charms of Whitleyism is its atmosphere of freedom; nevertheless it must not be expected that an institution founded

[1] See *League of Nations Industrial and Labour Information*. Vol. XVII, Jan. 1926.

[2] See par. 16.

to remove the evil effects of too much freedom can be entirely free from control. If the foregoing principles are taken into account, the amount of interference with the normal working of the Councils which will be beneficial in practice can be fairly accurately judged, after an examination of their workings in each industry, and a study, on the spot, of the effects of compulsion applied in other countries.

15. Ignorance and inertia also prevent the growth of what has been termed the other factors affecting efficiency. The first of these is economic stability ; an absence of violent fluctuations in economic transactions. Complete stability, in the same way as a complete lack of competition, would tend to increase apathy in industry, but the wastes of fluctuations are great, and the alertness encouraged by instability is often impaired by needless efforts. The essentials of stability are knowledge of the future and adaptability. The methods already mentioned help to provide information concerning the supply and use of natural resources, material capital, and human capital, as well as the advantages of co-operation.

16. Knowledge of the future can be made more certain by the removal or better apportionment of industrial risks ; which are at present borne mainly by those engaged in industry and by those who invest their savings.[1] Many of these risks can be foreseen when industry is looked at as a whole, though the particular economic unit in which they will materialize cannot be predicted. Also, if their effects can be spread over a sufficiently large number of people, they will scarcely be felt. The most simple way of ensuring a return on capital invested is to increase the number and types of concerns to which the capital is lent. This is the principle of the investment trust, which, providing those in control are reasonably efficient, stabilises the returns to investors, whatever the amount of capital invested by each individual. Those engaged in industry can insure against

[1] Under the principle of *caveat emptor*, the consumer also bears a considerable risk. With the growth of standardised and mechanical production, this form of risk has diminished in some directions, though it has increased in others. In a complete policy of economic regulation, however, account would have to be taken of its existence.

the risks they run through accident, ill health or unemployment, if they have sufficient income to pay an insurance premium or if the premium is paid for them, wholly or in part. National compulsory schemes, owing to their nature and wide range, make premiums low, and can spread costs equitably. They may, as well, provide against risks not directly attributable to industry, but which are felt by most workers' families. The possibility that earning power may be lost in old age, and the risk to women of widowed motherhood, are of this type.

17. Another method which attempts to encourage stability is that of business forecasting, such as is being attempted in Harvard, London and elsewhere, with interesting results. The Barometer of Business Conditions issued by the London and Cambridge Economic Service may in certain directions be compared to H.M. Meteorological Service, which describes and forecasts weather. Business cycles are not of daily occurrence and can be studied more carefully than systems of pressure. They are, on the other hand, governed by influences, the effects of which are far less easy to discover than the ordinary laws of climate. The most that can be expected for some time to come is a statement of tendencies, which will be far less near to the actual experience of the average individual than a meteorological forecast. Even this, if made generally available, could prevent some of the worst effects of economic troubles such as have recently afflicted most countries.

18. One of the greatest helps towards the growth of adaptability among economic units is simpler production. The complicated industrial developments of the last 150 years have led to much of the economic waste from which the world is suffering. In newer countries the effects of the past have been less strong. The movement in U.S.A. since 1921, towards " Simplified Practice," is an effort to remove these effects and to uproot the weeds of complexity growing to-day. Carried out by the collective action of producers and consumers, with the co-operation of the Division of Simplified Practice of the United States Department of Commerce, it aims at eliminating " needless variety in sizes,

dimensions and types of commonplace commodities."[1] No attempt is made to suppress individuality except where it results in substantial economic waste. Mr. Hoover, the ex-Secretary of Commerce, is optimistic about the future of the experiment. "There is," he remarks, "a great area still untouched in which the application of these waste eliminating measures may well save not millions, but billions. The consequent reduction of manufacturing, selling and distribution costs, and the release, for active use, of millions now tied up in slow-moving stocks, combine to yield savings eventually reaching the consumer in lower prices, thus increasing his real wages and assisting him to a higher standard of living." An estimate of the percentage of preventable waste in some of the leading industries of U.S.A. varied from 29 in the metal trades to 64 in the men's clothing industry. Fifty per cent. of the waste was attributed to management and about 24 per cent. to labour. A movement towards simplified practice in any industry may be initiated by anyone concerned. After sufficient response has been received from the industry, manufacturers are asked to elect a committee to make a survey of production, the results of which are analysed and placed before a general conference of manufacturers, distributors[2] and consumers, and various technical and other organisations. When the resolutions of this conference have been accepted by producers, distributors and consumers, representing "80 per cent. of the annual volume of the industry," they are published and circulated by the Department of Commerce. Resolutions appear to be well followed by members, and result in very marked decreases in variety and sizes.[3] The number of industrial groups co-operating with the Division steadily increases, and obstacles are being overcome which

[1] E. L. Priest, *A Primer of Simplified Practice*, 1926. U.S. Dept. of Commerce. Also C. Chisholm, *Simplified Practice* (Chapman and Hall, 1927); and Federated American Engineering Societies, *Waste in Industry* (McGraw Hill Book Co., 1921).

[2] In all that has gone before, producers and distributors have been included under the heading of producers.

[3] For example, a survey of the woven wire fence group showed that it was making 552 sizes and types of gauge of wire, length of roll, etc., and 2,072 sizes of packages, of which 69 and 138 items, respectively, were found adequate to fill any probable demand of customers.

originally appeared insuperable. It is stated that "the movement has cleared away misunderstanding and misrepresentation; has caused traders to speak a common language, has brought to the user a better knowledge of the problems and limitations of the manufacturer than was possible heretofore; and has given the producer a clearer picture of the problems facing dealer and user."

19. Simplified practice is distinguished from standardisation, in that it is based on a statistical study of certain data and not on technical research. The connection between the two is, however, very close, and the American Engineering Standards Association co-operates with the Division to avoid overlapping. From the point of view of industry as a whole, the opportunities for simplification and standardisation are almost unlimited. Both make production more certain through the reduction of stocks, sizes and processes. Work becomes more simple, production per head greater, delivery easier, and quality higher.

20. One particular form of inadaptability, very prevalent in modern business, is the waste of time and energy spent in agreeing upon and adjusting conditions as to purchases and sales; that is to say in bargaining. Too much caution or manœuvring in buying and selling holds up business. There is much scope for efforts to eliminate waste in this direction. Simplified production, the removal of competitive advertising, insistence upon minimum standards of production, the spread of education, or the standardisation of contracts wherever possible, will help considerably. To-day, for example, Shipping Companies, through Chambers of Shipping, standardise Charter Parties; Insurance Companies agree upon standard policies, and trade associations draw up sales contracts for their members which, among other things, often make provision for arbitration of disputes. The hindrances to trading between the individuals of various nations, caused by unstable and excessively high Customs Tariffs, have long been the subject of discussion. The Committee on Commerce, at the Economic Conference at Geneva, recommended simpler tariffs, of a more systematic and uniform construction, and fewer fluctuations in rates

of duty. The Conference also suggested that the Economic Organisation of the League should examine the possibility of securing a standard form of commercial treaty and uniform principles as to the interpretation and scope of the most-favoured-nation clause. Finally, the Conference made a plea for scientific co-operation among producers, simplification, and standardisation, and as a foundation to this, fuller, more regular, and better co-ordinated inquiry and publicity.[1] The agreement among the peoples of the world as to the directions in which industry most needs help, is surprising.

[1] Final Report. Conclusions.

CHAPTER II

THE REMOVAL OF ANTI-SOCIAL PREFERENCES AND OTHER OBSTACLES

1–9. *The encouragement of adequate provision for the future.* 1. Individual and group provision for the future. 2. Three ways of lessening the tendency of the average individual to discount the future: (*a*) Collective control; (*b*) Individual control but with a collective control over exceptional loss or gain from that provision; (*c*) Focusing the future in the eyes of the community. 3. The functions of a focusing lens. 4–8. *Regulation of the direction and time of saving.* Issue or guarantee of loans, protection, differential taxation, provision of banking facilities for the "small man," investment trusts, insurance, State enterprises. 5. Assistance to migration. 6. Housing and labour legislation, health laws and education. 7. Encouragement of investment in research and co-operation. Excessive individualism overcome by compulsory or enabling legislation, and publicity. 8. Collective assistance to standardisation and simplified practice. 9. *Conservation of existing resources.* Inquiry, publicity and legislation. 10–20. *The encouragement of greater equality in the return from investment to individuals and to society.* 11. Return to owners, tenants and public. 12. Fair terms of contract between tenants and owners. 13. Unearned increment taxation. 14. Investment in human capital may be carried out by community, employer, and employee. 15. Employers must make a large part of the investment, but must not be unduly hindered in their business. 16. Encouragement of socially desirable co-operation. 17. Examination of the social effects of advertising. 18. The averaging of returns during booms and slumps. 19. Compensation as a means of overcoming opposition to improvements. 20. The encouragement of industries with increasing returns. 21–28. *Methods which overcome the difficulties of division of resources.* 21. Collective acquisition, and differential taxation of natural resources. 22. Transfer of leases. 23. Provision of credit to the "small man." 24. Group migration. Grading and comparison of various kinds of skilled work. Simplification and standardisation. 25. The simplification and co-ordination of the results of research. 26. Prevention of unwieldy forms of co-operation, standardisation and "efficiency." 27. Bridging the gap to better production methods. 28. Rationalisation."

1. The Economic Conference considered that it is "an instinctive tendency of mankind to turn to the past rather than to the future and, even at a moment when an old order is being displaced by a new, to revert to former ideas and to attempt to restore the traditional state of affairs." [1]

[1] Pages 15–16, Final Report.

New countries are essentially countries of the future and it is for them that this tendency is particularly harmful. The only remedy appears to be the application of collective reasoning over the greater part of the economic field. For if a body of men, representative of varied interests, decide that they will make provision for the future, whenever reason dictates to them that such provision is desirable, either by saving a portion of current production, or by the conservation of existing resources, they are much more likely to make their decision effective than would separate individuals who had made similar decisions. In the first place, any attempt to put reason in the background is likely to be prevented by certain members of the group, who may or may not be in a minority. Secondly, the group, as a group, will have an indefinitely long life although its personnel will fluctuate, and it will not therefore tend to act in the interests of one generation only. On the other hand, a collective body is not so likely to take risks, and consequently the provision which it makes for the future is likely to be less faulty, only when the results can be foreseen with reasonable certainty.

2. There are, it seems, three possible ways of lessening the effects resulting from the tendency of the average individual to underestimate the importance of the future. First, when reason shows future needs fairly clearly, there can be some collective control of provision for the future. Any methods which remove uncertainty will help to increase visibility of the future. Secondly, where the result of a given form of saving is rather obscure, and intuition is likely to be more useful than a conference, provision by individuals will be advisable, provided the loss or gain from that provision is spread as widely as possible, after the individual has received what appears to be sufficient payment to encourage him to save. The influence of others, who will be affected by his mistakes, will then be brought to bear to discourage rash saving. Thirdly, it is possible to focus the future more clearly in the eyes of the community. It is the third policy which appears specially important at this point.

3. A lens used in the national economic organisation in

order to focus the future, can fulfil three main functions. First, it can help the nation to gain a sense of proportion in choosing the types of saving it will undertake. It can, for example, emphasise the importance of efficient machinery and organisation in the chief industries, or of education over purely luxury production. Secondly, the lens can show the need for saving as it arises. Saving can then be made at the right time without unnecessary sacrifice. Thirdly, it can draw attention to national wealth already existing and thereby help to prevent waste of economic welfare.

4. The first two of these functions, the encouragement of saving in various directions, and a control over the time at which that saving shall take place, may here be taken together. Mr. Hobson [1] has a theory that many of the economic troubles of the world are due to over-saving. Undoubtedly there is over-saving in certain industries, in so far as money has been invested in capital which might more profitably have been paid in wages or dividends, but the implication that society saves too much does not seem true, and implies that anything which diminishes saving and increases consumption will be good for society. Further, less saving would not necessarily increase stability in industry. It is, perhaps, better to agree that much of our saving is bad and to make an effort to improve its quality rather than to lessen its amount. Certain varieties of saving can be encouraged, for example, by the collective issue of loans for socially desirable purposes, or by calling attention to the type of loan which at the moment is most necessary. In some cases a State guarantee will help people to overcome prejudices. In addition, provided that abuses are prevented, a protective tariff or a bounty can frequently be used to encourage particular forms of investment.[2] Such a method is sometimes costly but may nevertheless be profitable in the long run. Another method of attracting capital is that of differential taxation which allows exemption from taxes on income from investments in certain industries, or results in heavier taxes on income from certain sources. This is a

[1] See J. A. Hobson, *Economics of Unemployment*, and other works.
[2] See Chap. V, below.

form of taxation which should vary inversely as the social value of the investment made by the tax-payer. With adequate safeguards it could be employed to a greater extent than at present, in connection with income-tax and death duties. A further method is that of organising small savers. Normally, it is not until a man's savings have reached a fairly large size, that he will consider putting them in industry. Bank charges and formalities will appear to him considerable obstacles. The small savings of the many can, however. be increased and put to a profitable use by the encouragement of modern banking business for the small saver, which employs temporary savings and gives him the advantage of a banking account ; by the encouragement of insurance schemes or investment trusts ; through legislation which facilitates the formation of Industrial and Provident Societies ; or by other forms of encouragement such as the institution of National Savings Associations, or in a somewhat inadequate manner, through the Post Office Savings Bank.[1] Finally, if private enterprise is not willing to make the socially desirable investments, it may be necessary for the State to undertake the development of resources itself. Capital can be provided, either from taxation or from loans raised for the purpose. Control can be freed from political influence if the State enterprise is administered by an independent Commission of well qualified men.

By these and other methods, the direction and time of investment in the various factors of production can to some extent be controlled, and saving be undertaken, for which in the ordinary way there would have been no funds available. The development of natural resources, through coal and water-power schemes, irrigation, economic surveys of areas, and the development of transport, in the long run tend to yield a profit, but returns are deferred and initial capital costs extremely heavy.

5. Apart altogether from the difficult problem of birth control, investments which affect the quantity and quality of human capital can be encouraged. It is, perhaps, in this

[1] The rate of interest to-day in the P.O. Savings Bank is the same as before the War, 2½ per cent. per annum.

direction that the blurred vision of the individual is most pronounced. At present, from a purely economic point of view, it is very desirable that there should be a transfer of people from old to newer countries. The individuals concerned, though they may realise the advantages of a transfer, need assistance. Collective investment has to be made in immigration, the real returns from which are bound to be high if the policy of the necessary organisation is based on right principles. Once the demand for immigrants exists, the main methods are attractive publicity and cheap fares.

6. The population of all countries has suffered in quality from under-investment in housing and labour legislation, and in health laws both for settled inhabitants and for immigrants, as well as in education. Insistence upon the payment of a wage sufficiently high to provide the necessaries of a civilised existence, and upon reasonable working hours, will tend to prevent the faculties of wage-earners from being damaged through working conditions and low wages. Apprenticeship laws providing both for instruction and maintenance render the labour supply more efficient. Restrictions on the immigration of certain racial types may be desirable. Certain immigrants, though not inferior to the existing inhabitants, may, if their entry in large numbers is allowed, have a disturbing effect upon the general physical quality and standards of life of the population. With greater experience, it may be possible to mix strongly contrasted peoples without adversely affecting the standards of either, but at present, it seems that no advantages are to be expected, in new countries at any rate, from an enlargement of the area over which experience is being gained.

7. As has been mentioned, the scope for collective effort in research and the spread of knowledge is enormous. In all forms of co-operation, shortsightedness probably plays a larger part than ignorance and inertia. British people, as individuals, are very loath to sacrifice their independence for a vision of the benefits of co-operation, and a co-operative organisation depends upon the support of its members, otherwise it has no real advantage over the ordinary business concern. In Britain, co-operation among producers, through

trade associations and co-operative societies, has not grown as much as in certain other commercial countries. The chief reason is lack of support by members.[1] Three remedies are: compulsion, as recommended in the *Report on Co-operative Coal Selling* already mentioned, helpful legislation, and publicity. The same methods may be applied to encourage co-operation between employers and employees, and between producers and consumers. Compulsory arbitration, compulsory conferences and giving of evidence, and compulsory co-operation, are too often treated as fundamentally unsound. Before judgment is passed upon them, unbiassed accounts should be obtained of their practical working, at the present time. Compulsion does not always involve fines and imprisonment. For example, the loss of the privileges of a Minimum Wage Act and of the right to obtain fair conditions of employment for its members, will make a union chary of offending an Arbitration Court.[2] A decision has to be made as to whether, under what are called free conditions, a minority shall be allowed to compel a majority to adopt a course of conduct of which they do not approve, or whether some degree of compulsion shall be brought upon that minority to act in an essentially reasonable fashion.

8. Standardisation, simplified practice and stability are often despised because their future value is ignored, and emphasis is laid upon the loss of variety and excitement which, it is said, they entail. Carried too far they are obviously liable to mechanise the national outlook and stunt the growth of taste. It may be, however, that as a result of these forms of efficiency which prevent waste of time in useless unrecognised effort, life will become far more varied and interesting. To take a somewhat crude example, nobody will suggest that the standardised and more or less fool-proof car [3] necessarily curbs people's imagination. It has in many cases opened up opportunities of

[1] See *Report on Co-operative Marketing of Agricultural Produce in England and Wales*, 1925. Ministry of Agriculture and Fisheries.

[2] Provided that the Arbitration Court is impartial in its awards.

[3] About three-quarters of a motor-car consists of minor parts. In one year General Motors reduced the variety of these from 13,000 to 2,100. See *Primer of Simplified Practice*, U.S. Dept. of Commerce, p. 17.

seeing and enjoying the world which would otherwise never have arisen. It is by putting these three factors in their right perspective that an organisation such as the United States Department of Commerce can be of great value.

9. The previous paragraphs give some account of the first two functions of a correcting lens used to control the type and time of saving. The third function is to ensure that the importance of *existing* wealth is realised. This is sometimes described, perhaps rather inadequately, as "conservation." The efficient use of national resources can only be secured after a survey has been made, various types of legislation introduced and certain activities encouraged. Such, for example, is needed in forestry work, the prevention of pests, the protection of certain species of animals, the granting of mining rights to would-be miners, assistance to small farmers, land taxation to encourage the breaking up of large estates, land legislation to enable large areas of land to come under single control to meet the needs of railways and power schemes, or the protection of certain primary producers, through a bounty, a tariff, or in other ways. These methods can, if used with due care, encourage within a country the accumulation of capital, in the form of machines and factories. Human capital will be conserved if a minimum standard of life is enforced. This minimum should be as high as industry as a whole can bear. The results of research and experiment can be protected against mis-use and lack of use by the conditional grants of patents and copyrights for a term of years. The existence of co-operation in all its forms can be protected by conditional registration, and enabling legislation which might conceivably even go so far as the grant of a temporary monopoly. Sound agreements to regulate transactions over a number of years will also help to preserve the existence of co-operative organisations against the shortsightedness of their members.

10. Until men become less selfish, the most direct way of encouraging production in the interests of society, rather than of the individual, will be to bring about less inequality between the returns which an individual receives from an investment in certain resources, and those received by

society. If, therefore, an individual, under normal circumstances, tends to profit at the expense of society, action should be taken either to transfer part of this profit back or to prevent the occurrence of any loss to society. On the other hand, if the existence of a certain industry is considered to be a national necessity,[1] though even under the most efficient conditions it will not pay a private firm to start or maintain operations, a grant of money or assistance in order to encourage production or operation by the State itself, may be sound economy. In view of the great amount of room for improved methods in the industrial world, a subsidy to an established industry is rarely advisable in practice, as it will tend to encourage out-of-date organisation. Tariff assistance does not by itself prevent competition inside the protected country and may occasionally be more desirable than a bounty.

11. The net returns from investments in natural resources and material capital are divided among three classes of persons; the owner of the resources, the tenant, and the public. The returns from an investment in property by a tenant may sometimes accrue to the owner of the property. For example, improvements by a tenant-farmer might be discouraged owing to the terms of the lease, which made unsatisfactory arrangements as to compensation when the lease expired. Again, the terms of a contract may sometimes cause the tenant to profit at the expense of the owner and the public, as happens when a tenant "works out" the land before the expiry of the lease. A second and considerably more important divergence between social and private returns occurs when investments by a public authority or a particular individual benefit a number of other individuals who have made little or no contribution towards the investment. The building of a bridge increases the value of property in its neighbourhood. It is often equivalent to a change in the geographical position of the property, and owners and tenants may benefit considerably.

[1] Either because of the advantages it offers as a training ground, or because its disappearance would cause very serious maladjustments in the organisation of industry, or for defence reasons.

Similarly the building of roads and gardens, or afforestation which affects climate, benefit many who bear no part of their cost. On the contrary, the owner or tenant may profit from an investment which injures the public. Factories which emit unpleasant fumes or discharge objectionable refuse, badly kept farms which allow pests to breed, unsightly buildings, or establishments attracting noisy crowds, are investments of this type.

12. The main practical remedy for the first type of divergence is an insistence upon fair terms in contracts which involve the leasing of land, houses or factories, and the hiring of machinery. Legislation can do much to help a tenant obtain compensation for his improvements. Greater publicity as to the essential terms of contracts of hiring will certainly make less prevalent, though it may not completely remove, unfair contracts. If improved conditions of hiring and security of tenure are found to result in a rise of rents, a Rents Court can be formed to decide upon claims for changes in rent. The powers of such an institution could with considerable advantage be extended as far as practice would allow, and its reports could provide reliable information upon the national land question.

13. The second form of divergence, which is equivalent to an " unearned increment " in the value of property, can be remedied, to some extent, by taxation designed to remove a large part of the excess return to individuals. The tax must not be easily evaded and the money collected must be spent in a more advantageous manner than it would have been spent by the private individuals. A tax on changes in the value of unimproved land is one of the most convenient and necessary of taxes.[1]

Such a tax is clearly important and will do much to bring about an equality between the social and private returns from land. It will not, however, achieve the same end as far as the returns from capital and labour are concerned and, therefore, there seems no reason to obtain all revenue direct from land values as is advocated to-day by the fol-

[1] If it were administratively possible, taxation of land according to the use to which it is being put would perhaps be a superior method.

lowers of Henry George.[1] A similar idea rests behind the demand for a tax on motorists. Motorists benefit from the roads: they should therefore, it is claimed, contribute an amount equivalent to part of the benefit they receive towards the upkeep of the roads. The principle is sound, that the normal healthy adult individual should not receive for himself from society, a proportion of its product considerably greater than the proportion of his contributions to that product. The extent to which it can be applied in practice depends, mainly, upon the removal of administrative difficulties, the chief of which are the need for standards, and the means of weighing conflicting claims in the balance. In Great Britain, it might be that co-operation between such bodies as the Ministries of Agriculture and Labour, the Board of Trade, Royal Commissions, trade associations, and voluntary societies interested in social welfare, would enable principles to be formulated for the measurement of social and private returns and the encouragement of equality between the two. Information concerning the agricultural possibilities of land, the potential labour supply of the country and of general industrial conditions could be compared and the degree of economic waste due to the divergences between the two returns could be estimated.

14. The returns to the community from investment in human capital are often considerably greater than the return to the investor. For example, the employer who trains his staff cannot prevent them, after they have received their training, from working elsewhere. A transfer from the relatively rich to the relatively poor may, however, increase the income of society through the resulting effects upon the efficiency of the poor. Unfortunately expenditure on education, technical training, improved working conditions, or high wages does not always yield a direct economic profit to the individual providing the funds, in spite of its advantages to the community. Unless, therefore, we are to

[1] There would be more truth in the arguments of Single Taxers if complete competition existed, as any benefits obtained from an advantage in the use of capital or labour would be reflected in the price of land. Simple competition or Free Trade is, however, rare in practice.

rely simply upon the forces of competition and the innate good nature of the average employer, some more positive action must be taken. This can be done in one or a combination of three ways. First, the community, since it receives the gain from these non-paying investments in human capital, may undertake the necessary expenditure from general revenue funds. Secondly, the investment may be paid for by the individual who receives the immediate benefit of the investment. Thirdly, employers might be compelled to make a certain number of investments in human capital. The degree to which each of these ways would be followed, that is to say, the extent to which the community, the employer and the employee or his dependents, should bear the cost of the investment, depends upon circumstances which can only be mentioned briefly here.

15. Under a state of society in which nationalisation of industry had not progressed far, Government departments or governmentally controlled committees could do little more than supervise or encourage investment in human capital. Contributions from the revenue would be subject to considerable waste. The average individual employee is poor [1] and dependent mainly upon his wages. The best way in which he could contribute towards the success of investment in human capital would be for him to ensure that any chance he might have of helping a scheme in its actual daily working would not be thrown away. The heaviest part of the burden seems likely to fall on employers who ought not to be allowed to profit at the expense of the community, but who nevertheless cannot be unduly hindered in the present, however great the future gain. The decision as to how much sacrifice is possible can only be made after an impartial discussion concerning the facts of industry. The four needs mentioned in the last chapter must, however, be insisted upon again. (1) A living wage. (2) Provision against unemployment and other risks. (3) Payment according to social economic worth, which involves payment

[1] The average annual earnings in Great Britain, of males of all ages classed as wage-earners, was estimated in 1924 at £115. *The National Income*, 1924, Bowley and Stamp, p. 30.

of the whole return to staffs of firms and to management, after taxes, and dividends sufficient to encourage capital have been paid [1]; and (4) Education in industrial organisation.

16. The methods which overcome the obstacles to co-operation which are raised by ignorance, also help to overcome those due to individual selfishness. They involve the encouragement of trade unions, trade associations and co-operative societies, and the exercise of control over their actions. In addition, the value to the community of certain forms of organisation has to be taken into account. In some industries, a large business, even though it results in many economies may, when its general effects upon the community are considered, be less desirable than several small concerns. It may sometimes, therefore, be wise to protect small businesses against the concentrated efforts of large units. Large businesses with hundreds of specialised departments may, under certain circumstances, provide little training to the average worker, and discourage independence and self-reliance. Too much trustification, standardisation and simplification may lead to stagnancy in industrial types, and though profitable, must not be given too large a field. Too much "scientific management" may lead to the encouragement of such types as Taylor's "ox-like man." Nevertheless, while it is well to remember these limitations, most countries have a very long way to go before they come within sight of them.

17. Advertising can also be profitably controlled in the interests of the community. Constructive advertisements, which give much needed information about products, are beneficial; combative advertisements, which aim mainly at transferring demand from one supplier of a certain article to another, are often wasteful. A definite line cannot be drawn between the two types of advertisement, but a realisation of their existence is important. Combative advertisement is often bad because it may help the growth of a

[1] Unless taxation were based on perfectly sound principles, the amount of the return remaining for distribution to the staff might be considerably in excess of the social economic worth of their efforts. In an unsuccessful firm the return might not exceed the "national minimum."

monopoly in production, or because the transfer of demand which it encourages may result in no advantage to the consumer but may cause, instead, disorganised production. The article which succeeds under competition may quite probably be inferior from the point of view of the community, since firms sometimes try to make up for their lack of technical efficiency by spending large sums on advertisement. Taxation of obviously combative advertisements would be a mild deterrent, but a really good method, where possible, would be the compilation, after due inspection and tests, of a booklet showing, from the consumer's point of view, the essential differences in structure and use between some of the most advertised of competing products, such as foodstuffs or patent medicines. Any methods which reduced the number of unnecessary types of products would turn advertisements into constructional channels, as differences in appearance would probably be due to genuine differences in quality.

18. Instability is always profitable to some individuals. A regulation of returns during booms and depressions will lessen its popularity. A living wage and reasonable dividends which are kept stable by fluctuating index numbers, as well as regulation by organised producers of the prices they receive, involve concentration upon a minimum return. This return may, perhaps, be obtained at the temporary expense of a somewhat higher average return, but such a policy is necessary if control in the interest of the public is to be obtained.[1]

19. Improvements in efficiency are often not made, because of the fear of individuals in industry that their interests will be damaged. If the community is likely to gain substantially from an improvement, it may pay to bring it about and compensate individuals for their loss, otherwise the step forward may be delayed indefinitely. Such a method is particularly liable to abuse and should naturally only be employed in important cases, as for

[1] Cf. Pigou, *Economics of Welfare*, p. 172. "It is as idle to expect a well-planned town to result from the independent activities of isolated speculators as it would be to expect a satisfactory picture to result if each separate square inch were painted by an independent artist."

example, in the change from the use of gas to electricity, or in the closing down of uneconomic units of the coal industry. A realisation by employers that, whatever the industry in which they are engaged, they are likely to obtain a reasonable standard of life, will prevent much petty opposition.

20. Finally, there are certain industries which it may be profitable to encourage through bounties or tariffs. If, in practice, industries in which increasing returns are operating could be distinguished from those with constant or diminishing returns, they could with advantage be encouraged by a bounty,[1] since the marginal social net product which they yield is greater than the marginal private net product. Here again the facts are needed, though even when they are obtained it will prove difficult to label the industries. Co-operation between business men and economists may bring to light sufficient information to enable this difficulty to be partly overcome.

21. Resources which could enter efficiently into production are often relatively immobile because of their size, or of the use to which they are being put. Land capable of producing crops or mineral wealth is frequently in the hands of large owners for whom subdivision would not necessarily be profitable, unless it were carried out on a larger scale than they could afford. Organised settlement will make subdivision of farm lands easier. In order to get the benefits of large-scale settlement, compulsory acquisition, with compensation, of several estates at once, may be necessary. Compulsion will also overcome inertia and selfishness but mere acquisition is not sufficient. Settlement must be organised on an economic scale, otherwise there may be greater waste than before subdivision. Surveys, transport, publicity, advice and regulation of activity are needed. The new farms must be economic units. It should, perhaps, be emphasised again that not only size but the use to which the resources are put, may be controlled. Another

[1] Also a tax might profitably be placed upon industries in which the law of diminishing returns operates strongly and in which conditions are such that effects upon rents may be ignored (Pigou, *Economics of Welfare*, Pt. II, Chap. X).

method of encouraging the cutting up of large areas is that of taxation which differentiates against big estates which are not used economically.

22. The need for a better division of mining land led to the demand by the Coal Commission for the acquisition of the mineral by the State and for an easier transfer of leases. " Many of the present defects of the industry in this country are largely due to the fact that the mines have had to adapt themselves to surface ownership. It is found that, on the average, each mine has had to obtain leases from no fewer than five mineral owners. Nevertheless, the areas of coal worked from any particular pit have not necessarily been those areas which could most economically be worked from that pit, but those for which the mine-owner has succeeded in obtaining leases." [1] Legislation which facilitates the transfer of leases, or the transfer of titles to land, will help towards a better division of land.

23. Again, a small owner or a tenant may, owing to high initial cost, be unable to purchase plant and machinery which he could use profitably. He may know what sort of organisation would be desirable for his business, he may be alert and active, he may be willing to act in the best interests of the public, but yet he may not be able to obtain credit because his business and his demands are not sufficiently large to interest bankers. The scarcity of credit is particularly marked in agriculture, where the small man is so prominent and where industrialisation is growing rapidly.[2] An international Commission organised by the International Institute of Agriculture recently pointed out the advantages of loans to farmers for the purchase of machines, seeds and manures, and the need for rapid transport, moderate tariffs and fiscal measures. The World Economic Conference

[1] *Report of Coal Commission*, 1925, pp. 77–8.

[2] It is usual to refer to agriculture and industry as two separate activities. To-day more than ever agriculture is fundamentally the same as industry and has the same problems to face. Agriculture, like industry, takes place as the result of the organisation of labour, capital and natural resources. In the past, industry needed a much higher proportion of capital and organisation than agriculture. This divergence is much less to-day. The harvester, for example, might almost be compared to a small portable factory. The " factory " ship used in whaling and other forms of fishing is a similar development.

suggested that the need for agricultural credit can only be filled through the organisation of national loan institutions, if necessary with the help of public authorities.[1] Reference has been made to the need for institutions to receive small savings, as well as to the uses of the Investment Trust, which enables small savers to get the profits of wide investment through pooling their savings and investing them jointly, under the guidance of experts. Accumulation of capital on a small scale is rendered easier by spreading of risks,[2] by the splitting up of shares and by catering for the average man in financial dealings. Whatever help may be given must, however, be accompanied by adequate safeguards, or fraud and negligence may be encouraged. For example, the practice of house-to-house selling of shares in "units" by share-hawkers, leads to the sale of many forms of security, which unless they could be sold to a certain class of person, would never find a market.[3]

24. The mobility of human beings is often restricted through the existence of family and other ties. Organised group migration and the spread of accurate information will make movement possible without separating members of a family. Migration, even though it can so often mean a very substantial rise in the standard of life of the migrant, is hindered owing to the fear of most men of venturing alone into the unknown. Though group migration needs heavy initial capital expenditure on housing and the provision of the needs of civilised existence, it can be made profitable.[4] Mobility may also be prevented through the lack of skill, or through the too specialised skill of individuals. A careful grading and comparison by a central authority, of various kinds of work, in different industries, will render the transfer of a skilled man from one kind of work to another less difficult. The simplification of methods, standardisation and scientific management, the gradual abolition of

[1] Page 11 of Final Report of Conference.

[2] Cf. the risk spreading in the shipping world carried out by Lloyds, which is in reality a large co-operative concern.

[3] Cf. *Report of Committee on Company Law Amendment*, 1926. Cd. 2657, Section R, "Share-Hawking."

[4] Cf. Henry Ford's "decentralisation" schemes. *To-day and To-morrow*, Chaps. XII, XIX (Wm. Heinemann, 1926).

century-old restrictions on entry into certain trades, as well as the broader outlook which is evolving through a higher level of general education, are already leaving open far greater opportunities for the semi-skilled and even the technically unskilled man. The extent to which the organised dovetailing of summer and winter jobs on a national scale by the seasonal transfer of men from one trade to another is possible, is, as Sir Wm. Beveridge remarked, in 1909,—"uncertain and must remain uncertain till it is attempted in practice." [1]

25. The difficulties of "indivisibility" also affect the product from knowledge. The benefits of research are frequently lost through the excessive length, unattractiveness and complexity of reports, or the lack of printed summaries. The change in the shade and shape of Blue Books in this country in recent years is, perhaps, a symbol of the change in the character of their contents, since the need for popular interest in Government reports is being realised. Summarising a long and complicated question may be misleading and the publication of "Outlines" has its dangers; nevertheless, in so far as it encourages people to probe deeper into certain branches of knowledge and gives them a better proportioned view of life, it is a good thing. Benefits are also lost through lack of co-ordination between research in different fields of activity. If knowledge is an indivisible whole, truth can only be brought to light after the results obtained in each branch of science have been brought together. Co-operation between scientists could be increased considerably with advantage, through a wider publication and discussion of recent scientific developments of all kinds. This would involve, for example, an extension of the activities of such organisations as the British Association for the Advancement of Science. A unified and more complete view of the economic machine would result and would show where encouragement, restraint, or freedom from interference is most needed.

26. Co-operation sometimes fails because the units attempting to co-operate are unwieldy or represent too many interests. It has been found in practice that large-

[1] *Unemployment*, Chap. IX, p. 210.

scale co-operative marketing societies succeed best when only one type of commodity is dealt with, and in the United States, South Africa and Australia there is a tendency for associations to be organised on a commodity basis, with the help of national, State and local societies. In the same way, trade unions and trade associations, and industrial tribunals, may be founded on the needs of separate industries or simply on those of the members of certain crafts or professions. Centralised research and a pooling of experience will show the advantages of each and help a decision in the national interest to be made. The introduction of efficiency methods may positively hinder the divisibility of economic units, as may all systems of centralised control. The only remedy, apart from the encouragement of education, is the spread of payment according to social economic worth, that vague phrase, to which some concrete meaning must be given if economic control is to be really effective. Complexity in the structure of the units in which transactions are conducted is considered by Professor Pigou to be, on the whole, an unimportant hindrance to mobility of resources.[1] It seems, however, that if we consider the existing ownership of land, and its present division into various uses,[2] as well as the complex reasons, apart from ignorance, laziness or selfishness, which prevent men from moving to places where their efforts will yield a greater return, the hindrances would appear considerably more substantial.

27. Linked up with the size of the units entering into production, is the question of the scale of organisation of production. When should a change be made to, what are often called, "mass production" methods, that is to say, to methods which produce quantities of uniform articles on a scale which considerably reduces their cost and result in a fall in price and a large increase in demand? What is to bring about this sudden change? Private initiative will undoubtedly be sufficient in some cases, but as has

[1] Part II, Chap. VII, *Economics of Welfare.*

[2] The ownership of a piece of land or the use to which it is put, may be said to affect its structure as an economic unit, since they may decide its shape.

been shown, it may be inadequate. The conclusions of the Coal Commission may here be mentioned briefly, as, failing inquiry into all industries, they are the best guide available. The requirements of a satisfactory method of encouragement are described as follows : (1) It must be based on an intimate knowledge of the industry. (2) It must be adaptable to individual conditions. (3) It must make use of the initiative within the industry itself. (4) When the co-operation of certain parties is refused, the aid of the State should, in the public interest, be sought and if necessary a transfer of property leases could be secured after reasonable compensation had been allowed. Nationalisation was not advocated by the Commission, because the choice of policy did not rest between two alternatives—nationalisation or inaction. The aim of the Report was to show how a rational course between these two extremes could be followed, with all the advantages claimed by the advocates of nationalisation. The ownership of the mineral, it was recommended, should be vested in the State and a Coal Commission should be established under the authority of the Mines Department, in which should be vested the ownership and administration of the property.

28. " Rationalisation " is a new word which only came into common use in this country after the World Economic Conference. It implies consciously planned organisation of industry, with a minimum waste of effort and material. Unless its use is confined to scientific research and practice, this term may come to represent merely a blind faith in catchwords and slogans or simply a form of megalomania. The fact and place of its appearance show, however, the growing realisation of the need for a bridge to better forms of industrial organisation.

CHAPTER III

CONTROL OF MONOPOLY

1. Simple competition rarely exists in industry. 2. Various kinds of monopoly. 3. Effects of monopoly on production. 4–8. *Methods of control.* 4. Publicity. 5. Obstruction to combination and assistance to competition. 6. Legislation and interference with terms of contracts. 7. Investigation of costs and insistence upon reasonable standards. 8. Control by consumers, workers and the State.

1. The foregoing brief survey has concentrated upon the defects of the economic machine under simple competition; but in practice such a state of affairs rarely exists. These defects of competition quickly lead to various forms of monopoly which contain most of the disadvantages of competition, as well as peculiar disadvantages and advantages of their own. The theory of monopoly has already been treated at length by economists. This short chapter contains references to possible methods of removing the bad, and increasing the good effects of monopoly.

2. Economists distinguish between, (*a*) Simple monopoly, where a single seller or buyer controls the whole market, and charges a monopoly price; (*b*) Discriminating monopoly, under which the monopolist, in order to get the greatest gains from each kind of customer, does not charge the full monopoly price to each, but discriminates between them. There is also a form of semi-monopoly, which may be called competitive monopoly, monopolistic competition, or cut-throat competition, under which each of several sellers or buyers controls a considerable part of the market with which he is connected. It appears convenient here to examine the remedies for simple monopoly, as most of them can be applied, with modifications, to the other forms, and the problems underlying all three kinds are fundamentally similar.

3. Under simple monopoly, ignorance may, perhaps, be less of an obstacle to mobility of resources than under simple competition. Inertia may or may not be affected by monopoly, though modern organisation will probably be more possible, and divisibility of units easier. Large-scale production carries with it the risks of over-centralisation and bad management, but has very many advantages which will probably outweigh these. On the other hand, the prices which monopolists can charge are usually higher than competitive prices, while selfishness is likely to have wider scope, and lack of foresight may or may not be more marked. Nevertheless, if a satisfactory control can be exercised, it may be economically desirable to encourage the continued existence, or even the formation of a monopoly.

4. Methods of control may be divided into four kinds: control through (1) obstruction to combination, (2) assistance to competition, (3) penalising such monopolistic devices as dumping or boycott,[1] (4) direct interference with terms of certain contracts. The main remedy here, as elsewhere, which fulfils in part all four of these functions, consists in publicity, after inquiry and recommendations by a representative body of men. The United States tackled the problem through the establishment, in 1914, of the Federal Trade Commission. The Commission was intended to act as a clearing-house for certain business facts and to help in the administration of justice where natural competition and the ordinary courts of law were insufficient. It appears that apart from the need for certain modifications in its functions and methods, the Commission has been of great value to the United States through its investigations into violations of the anti-Trust laws, as well as the prevention of dishonest practices and undue restraint of trade.

5. In discussing each of these four methods in turn, it may be pointed out that definite prohibitions against undesirable combination are useful only if they are coupled with a right of inspection, which can be, and is, exercised

[1] For example, the refusal to deal, except on specially onerous terms, with people who deal with competitors. The restrictions placed upon users of certain kinds of boot and shoe machinery, and some deferred rebates in the shipping world, can perhaps be placed under this head.

sufficiently. The second type, assistance to competition, is likely to be the most effective and can be given through encouragement to co-operation against the monopolist, among producers, consumers, employers or employees, as well as by a tariff or bounty which attracts investment in certain industries. The remedy must be judged according to its relative cheapness or dearness, and under certain circumstances the State may even enter the industrial field as a competitor itself. The discussion as to whether the State should operate a branch of industry is usually upset by prejudices. The following three interdependent questions are often ignored. First, what is the difference, under the two methods, between the costs of production to the country as measured in efforts and sacrifice? Secondly, is there any fundamental and insuperable reason why the State, under a system of payment which recognises social economic worth, should not be able to run a business as efficiently as a large joint-stock company, even when large risks have to be met? Thirdly, why should an industry owned by the State, even though it be run scientifically, through an independent Commission, be likely to prove more efficient than an ordinary joint stock company, working under State supervision with State co-operation? An inquiry into these questions, in each particular industry, would show the extent to which State intervention is desirable. The attitude of mind which regards the operation of all industry by the State as the solution to all economic problems, is often just as lazy as that which considers all interference to be harmful.

6. The third type of remedy which involves legislation against selling below cost, and restrictive dealings, may be useful, but it may bring about too much competition and harmful instability. It is interesting to notice that many monopolistic devices are often condemned by the public when they are part of the policy of trusts, but are looked upon with favour if they are carried out by co-operative organisations of producers. Inquiry and publicity are very necessary when monopoly exists, but legislation prohibiting combination must only be applied in

particular cases, where society is obviously being harmed. The fourth remedy, interference with the terms of contracts, may involve the regulation of the prices of commodities and services, or the control of conditions under which they are sold. Minimum wage legislation has been dealt with elsewhere.[1] Publicity is the main method for enforcing maximum retail price legislation. Consumers will usually insist upon their rights at the time of purchase, if a schedule of legal maximum prices is kept before the notice of the public. The fixing of maximum prices is useful, chiefly, in preventing exorbitant prices, either in certain districts, or among a certain class of person, in the sale of staple commodities, such as butter, tea, sugar, meat or bread. It need impose no hardship on traders, if maxima are fixed sufficiently often. The main necessity, apart from publicity, is the formation of a small supervisory Commission with powers of inquiry, which has to report upon its findings periodically. Useful work might also be done by a body which carried out inquiries into the gap between costs of production and retail prices of the more important commodities.

7. Beyond the prevention of excessively high charges to consumers, price-fixing is very difficult to carry out economically in practice. Detailed investigation into costs and organisation in complete industries is the only other method. Such investigations might make possible the payment of "reasonable" minimum wages, and the charging of "reasonable" maximum prices with a "reasonable" return on investment.[2] In an industry of the public utility type, providing such things as gas or water, and not usually seriously affected by short period fluctuations in the price of raw materials, or in demand, through changes in fashion and taste, control is easier. The stabilising effects of a well-arranged tariff or of other methods which regulate consumption,[3] might make the task somewhat less difficult.

[1] For example, Burns, *Wages and the State*. See also Chap. II of this Part.

[2] For difficulties in deciding upon a reasonable return on investments, see *Economics of Welfare*, Pt. II, Chap. XX, pp. 333–8; also the pamphlet, *Facts of Industry*, p. 32.

[3] See Chap. IV, pars. 8–9.

The first steps towards the control of conditions of contracts other than the price, have been examined in previous chapters.

8. Finally, it is possible to control large monopolies by requiring that the administration of certain industries should contain in addition to employers, representatives of consumers, of work-people, and, if necessary, of the State. This would result in a greater trustification of industry. Trusts and cartels, owing to the rapid development of industrial technique and the relatively slow evolution of industrial law, tend to be feared by the community at large. With the growth and success of experiments in economic control, these fears will have less foundation.

CHAPTER IV

CONTROL OVER THE DISTRIBUTION AND CONSUMPTION OF THE NATIONAL INCOME

1–3. The effects of methods so far suggested upon the equality of incomes. 4–7. METHODS WHICH NEED NOT ADVERSELY AFFECT PRODUCTION BUT WHICH REDUCE INEQUALITY OF INCOMES:—4. *From Gifts and Civil Rights.* Control by the Public Trustee of large gifts. Workmen's Compensation, Insurance, Pensions, Poor Relief and education benefits. 5. *From Work.* Increased ability and will to work. 6. *From Property.* Less unequal inheritances. Taxation, and control by the Public Trustee. 7. *From Property.* Less unequal savings. Taxation, and the provision of a minimum standard of life. 8 and 9. Methods which help to control the will and ability to buy.

1. On the basis of modern economic reasoning, it can be assumed that inequality of individual incomes is a bad thing from the economic standpoint, when it has no good effects upon the size of the National Income. Upon this assumption, any method of economic control which, in addition to directly increasing the size of the National Income, reduces the inequalities in its distribution among persons, is to be commended. All the methods so far suggested, for encouraging production, are likely to involve a diminution of inequality, but there is nothing inevitable about their results. The growth of economic control is like many other developments in the world of business, which are due to the apparent necessity of constructive effort. They should not be judged according to principles rigidly laid down beforehand but rather according to the spirit in which they are performed. This is particularly true of tariffs and taxation. The incidence of a tariff is often, in practice, easier to trace than its benefits, but after a broad impartial inquiry, increases in inequality brought about through its operation should be reasonably simple to discover. While the incidence of taxation is important,

the full effects of a fiscal policy can only be judged after an examination of the way in which the money collected has been spent by the Government in power.

2. The methods already mentioned for improving the use of natural resources, *e.g.* inquiry, publicity, development schemes, legislation safeguarding contracts, land taxes, compulsory acquisition of resources or the transfer of leases, make less unequal, the opportunities of individuals to use, fully, their talents in production. They will, in so far as the belief in the innate similarities of men is correct, make for less inequality in income from the exploitation of those resources. A better use in production, of material capital, as a result of surveys, legislation, collective saving, differential taxation, or agricultural and industrial credit, may, it is true in certain cases, give little encouragement to equality. It can, however, help the poor man to obtain capital to develop his abilities and thereby lessen inequality of opportunity. The essence of the methods for controlling the use of human capital, through education, laws of apprenticeship, a basic wage, better principles of remuneration, and organised immigration, is that of allowing all men a chance to succeed in life. Though payment according to social economic worth definitely prevents complete equality, it just as definitely makes incomes less unequal than they are to-day. Inequality of return is inevitable where efforts and abilities to produce are unequal. Until these efforts and abilities are exercised to the full, without requiring the stimulus of extra returns, unequal payment will be required, if production is to be as large as possible.

3. The growth of co-operation renders less unequal the power of various sections of the community to obtain a voice in industry, and prevents friction. It can greatly encourage the growth of industrial democracy. Workmen and employers may elect delegates to decide upon wages and conditions; producers may elect representatives to do their marketing; consumers may delegate officials to control their interests. Co-operation between employer and employee will only succeed if the extremer forms of inequalities of income are removed. Co-operation between producers

may sometimes lead to greater inequality in general, if the interests of the consumer are not protected. Consumers' representation on producers' councils will help to ensure that the economies of co-operation will result in lower prices, and the poor man will be at a smaller disadvantage than under freer conditions. A similar result is obtained under the normal form of consumer's co-operation. Knowledge and research, standardisation and simplification, assist lower prices and improve quality, while the removal of uncertainty and risk will, on the whole, particularly benefit the lowest paid men and enable them to acquire reserves and credit.[1] It should, nevertheless, be realised that successful research means that the disturbing effects of new discoveries will have to be coped with satisfactorily, unless greater inequality is to result. Also stability and the elimination of waste may allow such a rapid advance in productive methods with a corresponding need for adaptability, as to open the door to dislocation and economic loss. These are, however, the unavoidable risks of progress of any kind, and must be faced. In the long run the maintenance of a balance between the parts of the economic machine and the reduction of unnecessary inequalities in income depend upon the growth of progress in economic science.

4. There are four main sources of income: Gifts, Civil Rights, Work, and Property. Practicable methods, which reduce inequality through a control of income from these sources, but which do not adversely affect production, are numerous, in spite of the small amount of exploration work carried out so far. Many of them are bound up with those already suggested. Interference with incomes from private gifts would be difficult, though legislation has been suggested by Dr. Dalton which would prevent the validity of gifts of capital above a certain amount except under a settlement controlled by the Public Trustee.[2] Income from civil rights, such as Workmen's Compensation, Health and Unemployment Insurance benefit, Widows' and Old Age Pensions, education benefits and Poor Relief, offset to

[1] Beveridge, *Unemployment*, Chap. III, p. 36.
[2] *Inequality of Incomes*, Part IV, Chap. X, par. 5.

some degree the inequalities of incomes from property, and should be in rough accordance to need, with adequate safeguards against fraud.

5. Inequalities in incomes from work depend upon differences in the amount of work done by individuals, and in the value of their work. More or less work is done by a person according to the amount of his income from other sources, his physical fitness, and the restrictions placed upon his activities through lack of demand for his work or through the actions of governments, trade unions, professional associations, or employers, in their control over wages and conditions of work. Economic control should aim at maximising the amount of effective work done and of minimising the effort needed to do it. It seems desirable, therefore, to render unnecessary and less prevalent, unhealthy effort or enforced idleness among certain sections of the community. Factory regulation and inspection, wage legislation, technical training, apprenticeship legislation and other forms of social provision help this, as well as the forms of control over income from property, mentioned below. Inequalities in the value of work depend upon differences in the demand for and the supply of work. Demand for work varies with the fluctuating demands of industry itself, and is affected by the varying tastes and wants of consumers. Some methods which assist stability in industry have been mentioned briefly.[1] The basis of control is knowledge and adaptability. The supply of various kinds of work is affected by the differences, imaginary or real, between the attractiveness of occupations. Here again, control of hours and conditions and general "social provision," will lessen actual inequalities, while nationally organised labour exchanges, with employment advisory councils, will enable the requirements of occupations to be filled more satisfactorily than at present. The most important element affecting the supply of workers is their lack of freedom to choose their work in life. Given perfect freedom of choice, returns from work would be more likely to

[1] Part II, Chap. I, pars. 15–20. For the present position of Economic thought on the subject, see Pigou, *Industrial Fluctuations* (Macmillan).

vary inversely as its attractiveness. Better and more widely-spread education, and a greater freedom of entry into occupations and of movement between jobs, are the chief remedies and will bring about less unequal opportunities. More numerous openings for women will tend to lessen inequality of incomes between the sexes ; " social provision," including family endowment, will help women in poorer families to remain at home and follow their natural occupation instead of being forced to work at the expense of their family. Other factors affecting the supply of various kinds of workers are the restrictions imposed by professional and trade associations and trade unions. Inquiry and legislation may be necessary to remove those which are unreasonable. There is in addition the inequality of incomes from work, due to unequal talent. Owing to the existing unequal opportunities of entering occupations, economists have been unable to examine this question satisfactorily.

6. Inequalities of income from property are due to unequal inheritances, unequal savings, and changes in income from property, due to happenings which could not be foreseen. Incomes from inheritances can be made less unequal through an alteration in laws relating to land and other natural resources and in the law of inheritance. Compulsory acquisition and re-distribution of property in natural resources may, if indulged in moderately, be of great benefit to a country. It would, of course, be necessary to compensate the former owners adequately. The extent to which the State should own land and natural resources cannot be discussed in detail here, though it seems obviously desirable that many natural resources in old or new countries should not be allowed to pass completely out of public ownership. The changes in the law of inheritance suggested by Dr. Dalton include the following :—

(1) A restriction upon the amount and conditions of inheritance by individuals. (2) The placing of large inheritances in the hands of the Public Trustee, who would be given extensive powers of control. (3) A graduated tax upon large individual inheritances, which should increase

in amount according to the number of times the property has changed hands through inheritance.[1] If administered wisely, these changes could do much to reduce inequalities of income from property.

7. The fact that some people save more than others does not necessarily exaggerate inequalities of income; it may reduce them, if the saving is of a socially beneficial type. The will to save would be increased by education and by taxation differentiating in favour of savings;[2] the ability to save, by the provision of the banking facilities already mentioned. Inequalities due to fortuitous changes in income from private property can also be reduced by taxation. Such taxes on "windfalls,"[3] are comparatively new in practice. The Excess Profits Duty was a recent attempt of this kind. Plain taxation of land values, for example, is not enough. Allowance must be made, first, for changes in the general level of prices and interest, and, secondly, for the fact that all increments in value are not windfalls. Professor Pigou suggests that while sufficient safeguards for a perfect windfall tax would be "too complicated for practical politics," it would be possible to avoid the danger of taxing increments unfairly, by exempting all increments other than those which are very obviously windfalls. Compensation for unforeseen decrements in value would be even more difficult in practice and probably inadvisable except in extreme cases. The establishment by the State of a minimum standard of real income, below which it would refuse to allow any citizen in any circumstances to fall, and the operation of the principle of payment according

[1] It is claimed that this tax, which is based on the suggestions of Professor Rignano, "would do more than any other to keep sharp the stimuli to work and saving among the wealthy." It could be paid in land or securities to the Public Assets Commissioners or in cash, and there "seems no reason to suppose that the fiscal book-keeping would, at the worst, be one-tenth part as elaborate and expensive as that involved in the administration of the National Health Insurance Act." Part IV, Chaps. IX and X, *Inequality of Incomes*.

[2] For example, the exemption from income-tax given to life insurance premiums.

[3] *Public Finance*, Pt. II, Chap. XVI: Windfalls are "accretions to the real value of people's property that are not foreseen by them and are not due in any degree to efforts made, intelligence exercised, risks borne, or capital invested by them."

to social economic worth, would help to remove some objections to taxes on windfalls based on this lack of compensation. The individual owner would be protected against the most serious effects of a heavy drop in the value of his property, for, provided he were willing to work, he would receive at least the national minimum income.

8. The final consumption of goods and services, by an individual, may not result in a maximum of satisfaction to the individual himself, or to society, owing to the same obstacles which prevent maximum production (*e.g.* ignorance, inertia, short-sightedness or selfishness). Some pioneer investigation into this problem has been recently carried out in the United States,[1] but few attempts have been made to apply scientific remedies. Consumers are to-day somewhat bewildered by the intricacies of modern production, and owing to their ignorance of the fundamental qualities of the goods offered them for sale, are apt to allow their choice of a purchase to depend upon prejudice, speculation, or the arguments of salesmen. Quality frequently bears little relation to price.[2] The margin between cost of manufacture and sale price may be absurdly exaggerated, through the expense of efforts directed towards exploiting the weak position of the majority of consumers. Adulteration and misrepresentation are far more prevalent than is generally recognised and quacks still find a ready sale for their goods. It must further be realised that efficiency requires a certain degree of stability which is often substantially hindered by the fluctuating demands of consumers.

9. Demand depends upon the will and ability to buy. The will to buy, and thus to set in motion certain branches of the economic machine, fluctuates with fashion and taste; the ability to buy depends, as far as the majority of

[1] See Stuart Chase and F. J. Schlink, *Your Money's Worth* (Jonathan Cape, 1927); also *New Republic*, 1927, Feb. 2, 9 and 16; also Henry Harap, *Education of the Consumer* (Macmillan, 1924).

[2] On one occasion the U.S. Federal Trade Commission discovered that a large manufacturer of bedding, who sold goods of five qualities, made them all in the same way of the same grade of material. The only difference between the higher and lower priced articles was in the labels which were attached.

people are concerned, upon their income.[1] A remedy which will influence the consumers' will to buy, is that of systematic inquiry and publicity; the education of the consumer. Another would be the imposition of a tariff or tax upon certain types of goods, which could amount to a discouragement of caprice and socially undesirable spending. The provision of a minimum standard of life would help to stabilise the demand for necessaries and enable those in charge of the more important branches of production to devote longer time to consider the problems of supply. The material needs of a "good" life once obtained, the science of economics and economic control would lose much of their immediate importance.

[1] For the proportion of their income saved by the average family is comparatively small.

CHAPTER V

SOME ASPECTS OF TARIFFS AND BOUNTIES

1 and 2. Tariffs and bounties are a reaction against *laissez-faire* in international trade. 3. They can be used as instruments for removing the obstacles to mobility already referred to. 4. Necessity for administration by an efficient and impartial Commission. 5. Removal of inertia, ignorance and short-sightedness of producers. 6. And of consumers. 7. Assistance to the division of processes. 8. Equalisation of marginal social and private net products. 9. Removal of monopoly. 10. The costs of a tariff to the poor. 11. The cost to others. 12. The effects of a tariff on international trade. 13. Advantages claimed for bounties. 14. Tariffs as a form of taxation. 15. Conclusion.

1. The alleged purpose of bounties and protective customs duties is to increase the welfare enjoyed by the inhabitants of the area in which they are administered. Like the other instruments so far examined, which are perhaps of a more straightforward kind, they are, in modern times, the result of a reaction against the doctrine of *laissez-faire* and represent the attempts of States to exercise some control over their economic destinies. Free trade economic doctrine contains two conflicting ideas. On the one hand, it insists upon the fundamental similarity between international and domestic trade, for both involve buying in the cheapest market and selling in the dearest.[1] Also, it agrees that complete *laissez-faire* in home trade is not desirable owing to the shortcomings of simple competition, though regulation should play as small a part as possible. On the other hand, for international trade the original doctrine of Adam Smith is still put forward that the statesman, "who should attempt to direct private people in what manner they ought to employ their capitals, would not only load himself with

[1] The following statement of Sir Dudley North, writing in 1691, is sometimes quoted: ". . . the whole World as to Trade, is but as one Nation or People, and therein Nations are as Persons." Preface to *Discourses on Trade* (Reprint, edited by J. H. Hollander, Johns Hopkins University).

a most unnecessary attention, but assume an authority which could safely be trusted, not only to no single person, but to no council or senate whatever, and which would nowhere be so dangerous as in the hands of a man who had folly and presumption enough to fancy himself fit to exercise it."[1] That some advantages may be gained from the protection of infant industries is admitted as an exception,[2] though little enthusiasm is shown towards the policy, and emphasis is laid upon the difficulty of discovering when the infant comes of age. The fact that modern economic civilisation and its industries are still comparatively young is not taken into account, though it is of importance to the question.

2. Under free trade, it is stated, each country tends to develop the particular forms of production for which it has the greatest relative advantage, and any interference will adversely affect this tendency. The shortcomings of free competition and monopoly in international trade are almost ignored. It is, however, remarkable that theorists who favour the control of Trusts, or "managed" currencies, and hence a "managed" price level at home, and who declaim against the herd instinct and ignorance of business men, generally condemn bounties and tariffs because they consider that they must attract resources from where they are most productive and put them to less productive uses.

3. Free trade in the modern sense is really only another name for international free competition, and anything which oils the flow of resources in certain desirable directions and prevents their movements from being clogged in others, will be beneficial, whether it be a duty or bounty or even an embargo, *provided its cost to the community is not too high*. The chief test of the effects resulting from these instruments of economic control is their efficiency in removing obstacles to the mobility of resources, between places and uses. In actual life, "protection," in its popular narrow sense, is built up by a government either on its own initiative or, as

[1] *Wealth of Nations*, Book IV, Chap. II.

[2] Also Adam Smith's statement that defence against possible political enemies "is of much more importance than opulence" is usually subscribed to by economists. Book IV, Chap. II.

happens in more modern States, after detailed plans have been put forward by a more or less impartial body of experts.

4. For the rest of this chapter it is assumed that a protective policy would be administered by a Commission of reasonably well educated and intelligent men or women,[1] with wide practical experience in industry and representing the main opinions and interests concerned. They would have the fullest powers to inspect the works and accounts of the firms whom it is proposed to protect, as well as to obtain evidence (in private, if necessary) upon oath. It may be that no such body to control tariffs yet exists, but much progress has been made recently,[2] and the experience of Commissions in other branches of economic and political life show that the assumption is not unreasonable. Members would feel a stimulus to efficiency, for their work would be far more in the public eye than that of most politicians or Civil servants. While individual initiative would still remain, the effects of selfishness would tend to be cancelled out, since the most important interests in the nation would be represented on the Commission. It is possible that, in practice, the Commission would concern itself with many kinds of State aid to industry, but it is the possibilities of work in connection with tariffs and bounties that are considered here.

5. The first obstacles which "protection" could help to remove, are the inertia, ignorance and short-sightedness of producers and of consumers. It is often the man with practical business experience who feels these obstacles more acutely than the theorist. The business man knows of their existence, but has no remedy; the theorist would no doubt have suggested a remedy had he fully appreciated the need. In an old-established country, the possibilities of producing most articles have been fairly well explored, though, as has been suggested, industry in old countries is still relatively young.

Part II, Chaps. I & II.

[1] It has been suggested that a woman should be appointed to the Australian Tariff Board to represent the manifold interests of women in industry.

[2] Cf. Work of Tariff Boards in United States, India, Canada and Australia.

In a new country in an outlying part of the world, the effects of friction which prevent economically desirable types of production from developing, is very marked. The ignorance, in older countries, of economic life and possibilities in newer countries is often great, while distance tends to increase the amount of inertia which has to be overcome before the interest of established business men can be aroused in sound business propositions. Further, since the production in new countries of certain types of goods has never been tried, the results of such production are frequently a matter of serious doubt. Under these circumstances, the dogmatic assertion of extreme free traders that the production of these goods, in the new country, would automatically have taken place, if it could have resulted in putting them on the market at the same price as exporting countries, has little force. In both old and new countries, however, a Commission would be useful, for its members could make inquiries at home and abroad, and, if they considered the foundation of an industry had been prevented by these obstacles, could notify potential producers of their findings. Producers, particularly those who are making small profits owing to depression, will not be likely to risk their capital without some inducement, unless prospects are particularly inviting or unless guarantees are given. There is, of course, one great disadvantage to any policy of protection. Firms who might otherwise have been content to start production without any assistance, will naturally demand that the policy should be applied to themselves. A similar problem occurs in the issue by Railway Companies of cheap fares. The results depend upon the new traffic encouraged, for some experimental facilities given may simply allow the normal passengers to travel more cheaply, and not have the effect of encouraging others.

6. Duties may also overcome some of the difficulties in industry which are brought about by consumers. A new producer, however alert and far-seeing he may be, is faced with conservative and fickle customers. He may find that although he can produce articles as good and as cheap as those in other countries of the world,

Part II, Chap. IV, pars. 8 & 9.

it will prove extremely difficult to obtain a large permanent demand without very expensive advertisement. The majority of purchasers are women, who, while they may be excellent judges of quality, are perhaps liable to be affected, even more than men, by the dictates of fashion, custom and salesmen. Both men and women will often buy goods to which they have grown accustomed, even though new and equally good brands appear on the market. If the new producer's goods are obviously superior to those imported, he will have no need of any assistance, but superiority among the products of modern industry is frequently hard to judge.[1] A duty placed upon the imported product will, by raising its price, give him a preference, and if he produces at the same price and quality as his competitors abroad, he will be more liable to gain his market. Later, if the producer manages to obtain a substantial proportion of the demand, the domestic market may be sufficiently large to allow efficient mass production methods, and costs of production may fall lower than those of the imported product. The apparent need for a duty may then disappear. Its existence will still act as a safeguard against some of the effects of fluctuating prices abroad, and its retention may be desirable provided the consumer does not suffer.

7. The advantages of a duty are more strong when it aims at dividing up a large overseas industry and compelling certain processes to be carried out in the protected country. It often happens that processes which could quite obviously be performed in one country appear inseparable from an industry in another country, which exports its goods completely finished. Duties, for example, imposed upon completed motor-cars, certain assembled machinery, made-up cloth, bottled and packed foods, and which do not apply to unassembled motor-chassis, unassembled machinery, cloth not made up, and foods sent in bulk, might prove a useful encouragement to the division of processes, and the establishment and main-

Part II, Chap. II, pars. 21–28.

[1] For example, among the cheaper brands of motor-cars, or groceries (*e.g.* jams and sauces).

tenance of industries in the protected country.[1] Provided the processes were carried out as cheaply as formerly, this could enable unemployed labour in the protected country to be absorbed economically, or where there was an insistence, in the protected country, upon a certain standard of life, it could bring about a desirable transference of labour from countries with lower labour conditions. Without the duty, the domestic producer would have great difficulty in competing with the completely finished imported article. In practice, it must be remembered that the arguments in favour of duties will probably be hopelessly exaggerated by the parties interested. The Commission can only decide upon a right policy after detailed scientific investigation.

8. A protective policy can be of assistance towards equalising the marginal *social* and *private* net products of investments in certain resources. An unprofitable industry which is nevertheless beneficial to a nation, may with advantage be kept in existence by a tariff or bounty.[2] There are normally few industries in any country to which such conditions apply, but the fact of their existence must be recognised. Again, in the development of an area or an industry, it is, as has been mentioned, often to the advantage of the community that certain investments should be made, for which returns may be distant and uncertain. The risk and waiting may be too great to be borne wholly by any private firm or individual. The tariff or bounty may make profitable, the starting of a new industry in an unsettled area, the growth of certain kinds of crops, the decentralisation of industry, the provision of good conditions and wages to workers, and the transition of an industry from one form of organisation to another. The price paid by the consumer of the imported products subject to a customs duty will no doubt be increased, except in the rare cases when outside manufacturers or traders pay the duty. The price of the home product will not necessarily be higher than that which the consumer previously had to

Part II, Chap II, pars. 10–20.

[1] It might also cause the firms abroad which are hit by the tariff, to realise the possibilities of production in the protected country.

[2] For example, industries which provide training or act as a reserve against dislocation due to industrial fluctuations or war.

pay.[1] If the price is raised, the loss to the community which results must be balanced against the advantages of the duty. In the case of bounties, tax-payers as a whole will have to provide the funds which are given to industry. The home consumer who is a tax-payer may therefore have some small inducement to test the home-produced product. One of the great weaknesses, however, of a bounty upon goods sold in the domestic market, is that the urge felt by the consumer to support the new industry is very slight, for unless the bounty is substantial, the difference in price between the home-produced and imported articles is likely to be small. The advantage of a bounty on the production or the export of certain goods, is that it may enable an industry temporarily to sell at a price equal to, or lower than its competitors abroad, and thereby to gain a substantial foothold in the domestic or world's markets. Protection of all kinds involves the country, as a whole, in risks which individuals have not seen fit to undertake. Where it fails, records can be preserved, inquiry made, and the causes which are discovered can be kept as a permanent warning to individuals and governments alike. In the ordinary course of events, except in glaring cases, the reasons for the failure of private investments remain comparatively unknown.

9. Monopoly is as strong in overseas trade as at home, and protection will form an undoubted service if it can break down the bad influences of outside monopolies. Even though it removes overseas domination, at the expense of raising a monopoly inside the tariff wall, it will, at any rate, have made control easier to exercise. It is, however, just as likely to encourage internal competition as to encourage a monopoly.[2]

Part II, Chap. IV.

10. Protection can, therefore, *in certain circumstances*, be

[1] See par. 10. In practice it too often happens that the cost to consumers, of necessaries, is increased by protection.

[2] This is not in direct contradiction to the statement that protection may enable the producer to have a large part of the home market. The effects of protecting every industry are different and vary with the scale and organisation of the industry. Further, the Commission could inform potential new-comers of the difficulties which excessive competition would bring about.

of definite advantage to a country. When suggested as a practical policy, its advantages must in every particular case be weighed against its costs. The nature of these costs and the people who pay them must be discovered. As far as customs duties are concerned, the following sums up the orthodox view: "A country gets its gain from international trade only if it takes advantage of the relative cheapness of foreign goods. *So long as these are admitted free of duty, and only so long, does it secure in full the real advantage from high money incomes, or from a rise in money incomes.* Duties imposed on foreign goods simply cut off that advantage. And if the duties operate to bring about the production within the country of goods which, but for the duties, would be imported, the gain from foreign trade entirely disappears."[1] In reply it may be urged, that owing to immobility of resources, brought about by the failings of free competition or monopoly, the goods in question may be unnecessarily dear, and the gain from foreign trade in those goods may be considerably less than would be that arising from properly regulated production at home. The argument implies that a duty upon any class of articles inevitably raises the cost of all those articles. After a short time, however, it may happen that protection will considerably lower costs to the consumer, owing to the increasing efficiency of production in the protected country, or the diminished power of the external monopoly.[2]

The cost of protection will here depend upon the lapse of time necessary to bring this about. At first, until the home producer has got his plant into efficient working order, and until he has gained a substantial portion of the market, prices will probably be raised by the policy and the consumer will pay the cost. Before deciding upon the imposition of duty, the Commission would have to examine its immediate effects, from the point of view of the money incomes of the consumers concerned, the importance of the articles to them, and also any compensating advantages

[1] Taussig, *Principles*, Vol. I, Chap. XXXV, p. 502. The italics have been added.

[2] This, it must be realised, is not a sufficiently common occurrence under tariffs as organised to-day.

which they might be receiving from the State in other directions. An absolutely fair determination in each case will doubtless be impossible, but there are rules which can be followed. A duty raising the price of necessaries to the poor is *prima facie* undesirable. Even so, if the incomes of the poor vary according to law, with the cost of living,[1] and the rise in price is thereby passed on to the more wealthy employers or shareholders, without discouraging production, the first effects of a duty may conceivably be experienced with a very small amount of suffering. On the other hand, a duty raising the price of an article used only by the rich will, within obvious limits, be a sound tax, provided it is in the national interest that the industry should exist.

11. In new countries, the complaint that duties tax the poor man and not the rich is heard less frequently than that the manufacturer is helped at the expense of the farmer. It is argued that farmers as a class sell most of their produce in exchange for manufactured goods and that rises in price of manufactures must affect farmers adversely. The interdependence of the country and town is pointed out with emphasis, though it is usually unnoticed that farmers need the produce of other farms, and manufacturers the products of other factories. The distinction between primary and secondary producers, while often useful, is frequently not scientific. A dairyman may be just as dependent upon his compatriots' wheat as upon machinery, while a textile mill-owner, for example, cannot live without products of the steel industry. A duty on steel may hit some "secondary" industries far harder than "primary" industries. It appears better to study the cost of protection to each class of producer in turn than to consider producers as belonging to one of two groups. Farmers are not a producing class essentially different from all others, and grouping them under one heading sometimes leads to confusion of thought. In the past, they were, it is true, depen-

[1] If the time lag between changes in the cost of living and changes in the income of the poor, is very great, the poor may have to pay a large part of the tax.

dent mainly upon climatic changes, but to-day, in the same way as all producers, they require business training, scientific education and organisation.[1] The aim of the Commission would therefore be to ensure that every form of production received help of the most suitable kind. A tariff may not directly help farmers so much as a bounty upon their produce, or the supply of information and the encouragement of marketing facilities, but indirectly it can give them a more stable and prosperous home market. More direct methods will help them in overseas markets. Mr. Benham considers that "a nation endeavouring to direct labour and resources simultaneously in all directions" would present a "Gilbertian spectacle."[2] Provided that the resources and labour were directed wisely, it is difficult to see any objection to such a spectacle of all-round development.

12. The argument is put forward that a tariff stops imports of goods and services, and as imports in the long run must equal exports, any reduction of imports will tend to result in fewer exports or a fall in their value in the world market. In reply, it may be stated that a duty upon a certain class of goods aims at lowering the imports of that class of goods only, the import of other classes in their place is not prevented. If the world requires the exports of the protected country and if people abroad demanding them have not been made poorer through the operation of the duties, there is no reason why the value of exports should fall off. On the other hand, when the immigration of industries is encouraged by a duty, the imported workmen will consume considerably more of the produce of the protected country than formerly. This consumption results in an active demand for many kinds of its products which would not have been bought by overseas customers.

13. Bounties upon production or export are frequently advocated as preferable to customs duties. They do not result in any increased cost to the consumer and are paid

[1] It might be pointed out here that the manufacture of butter, which used to be considered as a "primary" industry, is now carried out, on a large scale, in factories.

[2] Benham, *The Prosperity of Australia*, p. 225.

for out of taxation; they can be awarded conditionally, and can be withdrawn if the conditions are not fulfilled; periodically, they are likely to come under the closest scrutiny as they involve the positive transference of considerable sums of money. They are, however, subject to very distinct disadvantages in practice. In the first place, while they prevent a manufacturer from leaning too hard upon the help he is receiving and from becoming unduly lax in his methods, they may not give him the sense of security that is needed before he will invest large sums in industry. Always suspicious of governments, he may feel that a bounty which has to be renewed periodically may be withdrawn at a time when his commitments are greatest, on the pretext that he has not carried out some purely technical part of his agreement, or simply upon the grounds of national economy. This objection could be removed, to a considerable degree, by placing the administration of bounties, like that of a tariff, in the hands of a Commission. The second objection which has already been mentioned is more important. A bounty offers no inducement to the consumer to change his habits; he will continue to buy articles imported from abroad until he finds they have risen in price.[1] In practice, since the consumer does not act in the same way as the "economic man," it happens over and over again that even though the cost of the home-produced article is no higher, and its quality no lower, than the cost and quality of imported goods, the importer gains a substantial portion of the market. This fact in some measure explains the attitude of old-established and efficient manufacturers towards the removal of duties, as freer entry is likely to result immediately in a fall in the price of the imported article, and allow, once more, full play to the whims of consumers. The fall may not be permanent but may seriously affect the domestic industry. It is for the Commission to decide, after hearing complaints, whether the consumer and the community are losing through the duties.

Part II, Chap. IV, par. 9.

[1] There is, of course, the difficulty that after a while it may become fashionable to buy the foreign article because it is more expensive. The duty under these circumstances will, at any rate, help the revenue.

If the manufacturer is taking undue advantage of the privileges granted him, the duties can be removed. Prices charged, efficiency of production and the prospects of the industry should be the test. Decision as to efficiency is difficult, but comparisons with other industries at home and abroad will help the Commission in their judgment, while the knowledge of the producers that the Commission is liable to inspect and criticise their methods, at short notice, tends to act as a stimulus.

14. In practice, revenue duties are very difficult to distinguish from protective duties, and consideration of the importance of a tariff as a means of indirect taxation belongs to the regions of public finance. It may be noted here, however, that in a country where inequalities of income are not very marked, the taxation, by means of customs duties, of goods other than ordinary necessaries and day-to-day amenities of life, may prove a convenient and economically desirable method of obtaining a revenue.

15. The foregoing suggests that bounties and tariffs as instruments of economic control, possess certain advantages. In practice, their existence, which should be comparatively rare, is far too common and much waste of economic welfare results. Like explosives in a chemical laboratory, their use is attractive but dangerous, and needs a safety screen in the form of an able Commission, through which their actions and results can be observed and controlled.

PART III

AUSTRALIAN EXPERIMENTS IN ECONOMIC CONTROL

INTRODUCTION

The forms of economic control to be found in Australia are extremely numerous. It will not therefore be possible to mention developments in all States, though some account is given of all the more important types of experiment. Several chapters could be profitably devoted to each in turn, for the information which the world has of them is small. The need for economy of space, however, has made it necessary to mention only those facts which are more striking to students of economics in older countries. Several of the methods have been used in Great Britain, whose more restrained developments may appear to the cautious to have been planned more soundly than the experiments of newer countries. Australia has been chosen as the first country worthy of study because so many of her efforts are of a pioneering nature. Her main need is the co-ordination and comparison of experiments, the first step towards which is the provision of a plan of control and a means for keeping it up to date. This book can provide neither. It aims rather at giving a rough sketch of the ground to be surveyed.

Economic control can be applied to the whole economic system, to groups of industries, single industries or parts of industries. This may be done through control over ignorance, inertia, anti-social preferences or indivisibility, in the use of some or all of the factors of production. In addition, it is possible to control distribution and consumption. When examining experiments, it is not always possible to decide upon the form of economic friction at which they are aimed. Until recently, sentiment and opportunity were considerably more important signposts to Australian statesmen than theory. Further, the economist tends to conceive the economic system as a whole, and

the man who exercises control is often mainly interested only in particular parts. Also, experiments are frequently capable of preventing more than one kind of friction. It is fairly simple to get a general idea as to the potential value of experiments, judged from the standpoint of economic theory, but an accurate estimate must depend upon a detailed examination of the manner in which they fulfil their functions, and of their cost.

The first chapter of the description which follows contains an account of the public ownership of certain industries. It should not be inferred that because this section comes first and because some of the methods described are working fairly satisfactorily, that the writer considers the most desirable form of economic control to be that exercised by a government. Economic control, according to definition, is in the interests of the inhabitants of the country concerned ; governmental control may sometimes quite easily be to their detriment. The favourable side of the picture is here emphasised rather strongly because the unfavourable side has so frequently been exaggerated in order to shock inquirers and make them condemn the whole. It may perhaps be pointed out, that most of the objections brought forward have a very large amount of truth in them. Whether, in particular industries, the practical advantages outweigh the disadvantages, is a subject which has not been studied very scientifically anywhere, except as far as certain " public utilities " are concerned.

The remainder of the book describes less direct, but nevertheless vitally important, forms of control. Emphasis has been laid on facts rather than on opinion. The marginal notes contain references to some of the more important sections of the theory in Part II which could be made to apply to Australian practice. A large-scale charting of the way which these developments in economic control should follow, is one of the most urgent problems of the day.

140
150
23½
23½
ROCKHAMPTON
QUEENSLAND
Dawson
Taroom
Gympie
BRISBANE
SOUTH
AUSTRALIA
30
30
Darling
NEW SOUTH WALES

SOUTH-EAST AUSTRALIA.

CHAPTER I

PUBLIC OWNERSHIP OF AN INDUSTRY

1. Industry operated by Governments of all parties. 2. The brown coal resources of Victoria. 3. Present operations. 4. Their advantages. 5. Their disadvantages. 6. The future. 7. Tasmania's water power. 8. Cost of operations. 9. Federal interest in world developments. 10. Irrigation and water supply. 11. The Murray River agreement. 12. Victoria's experience. 13. Domestic and stock supply. 14. The Millewa scheme. 15. Its cost. 16. Bulk handling of wheat. 17. The New South Wales scheme. 18. Opinion of Commission from Victoria. 19. Australian State Railways. 20. Their advantages and disadvantages. 21. Control of ports in Australia. Melbourne. 22. Sydney. 23. Recommendations of Sir G. Buchanan. 24. Control of meat industry. 25. Conclusions.

1. The carriage of letters and parcels and the local supply of gas, water, and electricity, is normally a public function in Australia, as elsewhere, but in addition, State governments belonging to all political parties have seen fit to take charge of certain complete industries. Before an opinion is formed as to the most desirable standpoint to adopt between nationalisation of all the means of production and distribution, and "freedom in industry," a study of public ownership in practice, applied to particular industries, would prove profitable. It is only possible here to give a brief account of recent developments in Australia.

Chap. II, 4.

2. There are three notable examples of the way in which governments have taken upon themselves the task of exploiting Australia's natural resources. To-day, the brown coal of Victoria, the water power of Tasmania and the supply of water for domestic and agricultural purposes in most States are controlled and developed through State or Federal Commissions. The State of Victoria has near Morwell, 87 miles north-east of Melbourne, a reserve, estimated at 6,000 million tons, of

II, 4 & 10.

very easily accessible brown coal or lignite.[1] The coal can be dug mechanically with large steam shovels,[2] out of an "open cut," made by the removal of an overburden about 33 feet thick. The seam in the present open cut has an average thickness of 180 feet. The calorific value of the lignite is equal to a little less than half that of New South Wales black coal, but the ease with which it can be obtained, and the possibility of turning it into briquettes with a calorific value three-quarters that of black coal, make it a great asset to the State. It was not, however, until 1916, when the War had raised the price of New South Wales coal, that the deposits began to be worked. In 1919, two Commissioners and a Chairman were appointed to control the generation, supply and use of electrical energy throughout the State, to investigate possible sources of power, and develop the more favourable. As a result, a scheme was recommended for the utilisation of the Morwell area, for, as the report points out, "Victoria is assured of a source of energy capable of satisfying all possible requirements of the State for many generations to come."[3] The initial cost of the scheme was to be £3 million.[4] Provision was made for research and the ultimate co-ordination and unification of all State or other electrical undertakings in Victoria. The London technical adviser had remarked that "the cheapest possible supply of electric power will only be secured both for manufacturing purposes and for the railways if such co-ordination takes place, and the requirements of the State as a whole for electric power be considered together."[5]

II, 4.

II, 26 & 27.

[1] The total estimated reserves of black coal in the United Kingdom is about 150,000 million tons.

[2] The latest shovel is capable of excavating 2,500 tons of coal per day (of 24 hours), but in the near future coal will be won by means of a dredging plant with electric locomotive haulage.

[3] In a pamphlet published in March, 1928, the Commission state that, allowing for the requirements of a briquetting factory, there is sufficient coal in the field to generate a million horse-power of electrical energy daily for four hundred years.

[4] By June 30, 1927, capital expenditure on the crown-coal works amounted to about £5 million and that of the whole Commission to about £10 million.

[5] Report by Mr. C. H. Merz to Victorian Government.

THE OPEN CUT, MORWELL, VICTORIA.

3. The scheme is now in operation. The State Electricity Commission generates a large and increasing part of its supply on the lignite fields, while briquettes are becoming popular as a fuel throughout Victoria. The daily production of briquettes is to-day only about 400 tons, and they are therefore comparatively expensive.[1] During 1926, the Commission invited a leading German authority, a director of one of the largest brown-coal undertakings in the world, to inquire into operations. He was optimistic as to the future of Victorian briquettes, for which he considered there is a possible market of a million tons per annum. Prices would be reduced with increased output. Production costs, he considered, were low and the number of workers needed was about one-third of those required in Marga for the same output. The cost per ton of coal mined would be about 1*s.* 3*d* The cost, to-day, per ton of coal delivered at the power and briquetting plants is about 2*s.* 6*d.*

4. The State has, therefore, become the pioneer of electricity development in Victoria. Through a unified policy it is helping the farmer and manufacturer and encouraging decentralisation over an area almost as large as the United Kingdom. Provided the scheme is eventually a financial success, its social advantages are many. The State has carried through a provision for the future, where no provision had previously been made; it has, by taxation and the issue of loans, encouraged a flow of savings into what are considered to be socially desirable channels; it has ensured that the brown coal resources of Victoria shall not lie dormant. The original capital has been supplied out of revenue derived from loans and taxation. The return to the lender is at a fixed rate of interest; to the tax-payer, the same as the return to the community in general. Human capital is being well looked after, as wages are high and conditions of work good. Research is being undertaken in the public interest. The co-operation of all existing electricity works in the State has been encouraged, so that from the start, advantage has been taken of the benefits of large-scale production. A Power Advisory

II, 1–10.

[1] The price to domestic consumers in March, 1928, was £2 11*s.* per ton.

Board containing representatives of the Electricity Commission, the Victorian Railways, and the Melbourne and Metropolitan Tramways Board has recently been formed. Co-operation with electrical undertakings throughout the Commonwealth has not yet come about, but this, apart from co-operation resulting in simplified practice and standardisation, may not be altogether desirable, as the competition between various States to attract industry appears healthy and does not result in much economic friction. Efficiency in industry is encouraged through the provision of cheap power, and the farmer will be able to make his business more scientific.[1] All these advantages encourage better distribution of wealth. Centralisation of administration and detailed control of wage payment are likely to benefit workers, while the decentralisation of industry and the bringing of power to the farmer or industrialist helps the small man to obtain the advantages of modern methods and machinery. Electricity in the dairy industry, for example, considerably augments the real income of the small-scale producer and his family, and he becomes more able and willing to save. The dairyman's children will not then have to help continually in the work of the farm, and their father will be able to attend more to their education and upbringing.

5. On the other hand, as has been mentioned, State industries, in spite of the fact that they are operated by a Commission, perhaps even at a profit, may sometimes be less efficient than a private firm or joint-stock company. Theoretically, such a statement may have small foundation, because a form of State control which did not remove the advantages of private enterprise could no doubt be imagined; but in practice, inefficiency is very often more noticeable in State administration than in private undertakings, for payment of the staff by results or according to merit is rarer even than in the commercial world.[2] If such a

[1] Householders also benefit from the scheme. In Melbourne, the Commission charges a householder 1*s*. a month for each of his main rooms in which electricity is installed, and 1¼*d*. for each unit of electricity used.

[2] Also, the methods of recruitment for the higher grades of the Australian Public Service leave much to be desired.

desirable change were made in the methods of remuneration, there would be no reason for lack of enterprise, but until it takes place, such remarks as the following are of great importance.[1] "Statements are frequently made in public and in the Press that Government service is necessarily inefficient and invariably overpaid. I have already discussed the question of overpayment, and desire to say that after a good many years in the employ of large private undertakings and eight years in Government employ, I am satisfied that so far as this Department is concerned the suggestion of inefficiency cannot be maintained. I desire, however, to take the opportunity of saying that the same results, other things being equal, cannot be obtained in Government service as is possible in private employment, for two principal reasons: the first is the difficulty of adequately remunerating excellence of service in Government employ in the way that it can be remunerated in private employ; in other words, the prospects of really important advancement are much more limited in the former than in the latter." The second difficulty mentioned is that a public servant is always liable to have any of his actions criticised by Parliament. "One mistake is frequently allowed to outweigh a hundred successes. The practical result is that a head of a department has to be continually fighting a tendency on the part of his staff to play safe, or else to acquiesce in their doing so." Here appears to be a practical example of the need for greater equality between the Marginal Social Net Product of work and the Marginal Private Net Product. If, whenever possible extra remuneration were given to the staffs of State industrial concerns, in return for extra efficiency on their part, and if more trust were imposed in managers, objections against the operation of certain industries by the State would to a large extent be removed.

I, 7.

6. The Electricity Commission, as might be expected, did not, at first, pay its way, and the net loss during 1926–7,

[1] Report of Manager and Chief Engineer of the Hydro-Electric Department, Tasmanian Parliamentary Papers, 1922.

including allowance for depreciation, was about £200,000. The loss in the previous year was considerably greater, and the income was only equal to about 70 per cent. of the costs, including interest.[1] The greater part of the scheme has only been in operation for three or four years. Energy sold during 1926–7 amounted to 246 million kilowatt hours as compared with 162 million during 1925–6. Morwell power station produced the bulk of this. In 1925, the undertaking received a considerable amount of public criticism. As this, it was thought, "might destroy public confidence in the Scheme," the Commission invited a searching inquiry "by some competent outside authority" to satisfy the public mind and free the Commission "from the inevitable embarrassment of a continuation of such criticism, which such an inquiry would prove to be unjustified and which would tend to the elimination hereafter of conditions inimical to the smooth and successful development of the undertakings."

Accordingly, a Commission, consisting of one man,[2] an American, was appointed to inquire into the affairs of the State Electricity Commission. In dealing with the finances of the Electricity Supply undertakings, his report, which made several criticisms and recommendations, states that tariffs and charges were on the whole reasonable, and there should result "a very appreciable future growth in the use of electricity." The undertakings, the report points out, have proved a loss so far, but they "are fundamentally economically sound, and will prove themselves so ultimately."[3] Recent reports seem to show that the Scheme will shortly be giving an adequate financial return on the capital invested.

7. The possibility of using the lakes in the middle of the small triangular island of Tasmania as natural reservoirs for the supply of hydro-electric power, had been realised for many years, but it was the foresight of a Melbourne

[1] Auditor-General's Report. The accumulated funded deficit in 1925–6 was £1·1 million.

[2] Mr. W. H. Sawyer of Columbus, Ohio.

[3] See Report in Victorian Parliamentary Papers. The undertaking should, it was considered, be on a paying basis by 1930.

metallurgist [1] which ultimately led to the beginning of
II, 4 & 10. constructional work in 1911, by the Hydro-Electric Power and Metallurgical Co., Ltd. The Company found itself unable to obtain sufficient capital for its purpose, and in October, 1914, its incomplete works were handed over to the State of Tasmania. The Tasmanian Agent-General in London reported in 1914:[2] "I am satisfied that there is no prospect of obtaining the capital from private individuals for the enterprise. The figures show a bare return of interest, and while it could not possibly pay a private company to enter upon this enterprise, for the Government it is a different proposition, inasmuch as the State will obtain the advantages of increased population and established manufactories. The State might take up this work for the same reason that caused us years ago to start constructing State railways. . . ." The services of the Company's chief engineer were retained in the newly formed Hydro-Electric Department. By 1916, the first stage of construction was completed, and power and light were supplied to Hobart over a distance of 63 miles and to Launceston over 53 miles. The combined population of the two cities is 86,000. To-day, power is sent at a cheap rate to the electrolytic zinc works at Risdon, a carbide works at Electrona, the chocolate works at Claremont and the woollen mills at Montrose. It is expected that as a result of the power available, cement, paper pulp, artificial silk, tyre, and agricultural machinery industries will be founded in the near future. It seems, that although Tasmania suffers from her separation from the mainland, the existence of cheap power within the island must in the future help her industrial growth considerably. It is not the so-called "industrial" growth alone that will be encouraged, the farmer is also likely to benefit. In the Derwent Valley district, an experimental country line 19 miles in length has been erected upon wooden poles and joins the main transmission line at Bridgewater. Power is now being used in

[1] Mr. J. H. Gillies. For an account of the scheme in 1927, see publication by Tait Publishing Co. (Pty.), Ltd., Australia, and Tasmanian Parliamentary Papers, 1927.

[2] Tasmanian Parliamentary Papers, 1915–16.

this district, not only for ordinary household purposes, but to drive irrigating pumps, milking machines, circular saws, cattle-food mashers, hop-picking machines and various machines for the treatment of fruit. In the small town of New Norfolk (2,500 inhabitants), it is used in packing sheds and for woodwork and fruit-preserving. Consumption in country districts is increasing, though it is still relatively unimportant.[1]

8. The total capital expenditure by 1927 was about £3½ million. During 1926–7, after meeting interest on capital,[2] management and working expenses, and depreciation charges, and after writing off bad and doubtful debts, a net profit of £5,421 remained. The accumulated deficiency on which interest has to be paid to the Treasury amounts to over £50,000, but depreciation charges have been allowed since the foundation of the scheme, and it is hoped that when increasing demands absorb the surplus power which is now unsold, the deficiency will soon disappear. There has been no loss to the taxpayer. The intention of the Government "is not so much to make a profit out of the sale of hydro-electricity as to make electrical energy available in the State at the lowest possible figure and to encourage the establishment of industries within its borders."[3] It is claimed that the power schedule is the lowest in Australia and it is anticipated that demand will be greater than supply.

9. Little comment is needed here. Two States are directly controlling the whole of the supply of electric power and light to their inhabitants. Time alone will show the result of their efforts. Everything points to a reasonably successful future for both schemes. The Federal Government have been greatly impressed by hydro-electric development in Canada, and further experiments are likely, particularly in the use of water power made avail-

[1] Between 1925 and 1927, the number of consumers in country districts increased from 330 to 466, although there was a severe agricultural depression during 1925–6. The total country load increased from 623 kw. to 1,288 kw. 1927 Report.

[2] In 1926–7, £189,337 was paid in interest on loans.

[3] Particularly Electro-Metallurgical and Electro-Chemical Industries.

able by irrigation schemes. In New South Wales, it appears likely that in the near future a State Electricity Commission, on the lines of those in Victoria and Tasmania, will be formed.

10. Of vital importance to new settlement in a large country is the conservation of all available water, for use in dry areas. In Australia, the State and Federal Governments have assumed this task. Irrigation and the supply of water for stock and domestic purposes are being used mainly to help closer settlement, after large estates have been purchased, subdivided into holdings of suitable sizes for more intensive cultivation, and sold on easy terms. Most States have, in addition, spent considerable sums in sinking artesian wells and bores. New South Wales, more than half the area of which has a rainfall of less than 20 inches, has spent about £9 million on irrigation. The chief scheme, on the Murrumbidgee, will, it is anticipated, make available about 300,000 acres for fruit and vegetable growing or dairying.[1] Under this scheme, by June, 1926, 112,000 acres had been taken up by about 2,000 farmers. Storages with a combined capacity of eight hundred to twelve hundred thousand acre-feet are being planned on the Lachlan and Macquarie rivers. In Victoria, the Goulburn scheme which now serves about 900,000 acres, was begun in 1887. River Murray irrigation systems in Victoria already supply an area of about 400,000 acres and will be expanded considerably as soon as the Hume reservoir is completed by the interstate authorities. The Queensland Government is undertaking irrigation work in the Dawson Valley and is building a concrete dam at Nathan's Gorge near Taroom. The whole scheme will irrigate about 200,000 acres. In 1927, 30,000 acres under this scheme were thrown open for selection. In South Australia, apart from the Renmark Irrigation Trust, which works under conditions

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[1] For comparative purposes it may be useful to note that the new S.E. Electricity scheme which includes the counties of London, Middlesex, Essex, Kent, Surrey, Berkshire, Buckinghamshire, Bedfordshire, Cambridgeshire and the greater part of Sussex, covers an area of about 5½ million acres.

similar to those of the Mildura Trust in Victoria [1] and irrigates 7,700 acres, there are 29,000 acres of irrigable land in the State, and about 10,000 acres of reclaimed swamp land. Apart from the Goldfields Water Supply in Western Australia, which carries water in pipes to Coolgardie from a distance of 400 miles, and the construction of bores, little development has taken place in the supply of water to farmers by the State. Tasmania is using her water resources for hydro-electric power. In the Victorian, New South Wales and South Australian schemes, control is placed in the hands of a Commission with wide authority, though some irrigation on the Murray is being carried out successfully by Irrigation Trusts.

11. The main general feature of interest in Australian irrigation is the Murray River Agreement Act of 1915, between the Federal Government and the Governments of the States of New South Wales, Victoria and South Australia, and the amendment which came into force in 1924. As a result of these Acts, the Murray River Commission, consisting of the Commonwealth Minister of Public Works and a skilled engineer from each of the contracting States, are engaged in the construction of an irrigation and power scheme which, it is estimated, will cost about £10 million. All the Governments are sharing the cost equally. The scheme involves the construction of: (*a*) The Hume Reservoir, near the borders of New South Wales and Victoria (6 miles east of Albury) and the junction of the Murray and the Mitta Mitta. The reservoir will probably contain 2 million acre-feet, and in addition to regulating the flow of the river, will provide for the irrigation of large areas in New South Wales and Victoria. (*b*) The Lake Victoria Storage with a capacity of half a million acre-feet in the extreme south-west corner of New South Wales. The water is stored by means of embankments, channels and flow regulation. (*c*) Five weirs

11, 4 & 10.

[1] A Commission manages all irrigation works in Victoria except those controlled by the Mildura Trust. In the Mildura settlement about 14,000 acres are under intensive culture. The population is about 14,000. The Trust offers an example of successful irrigation carried out by a body subject to rather less State control than the Commission.

and locks (4 on the Murray between Blanchetown and Echuca, and 1 on the Murrumbidgee between the junction of the Murray and Hay). All these works are being carried out by the Governments of the three States concerned, under the general supervision of the Commission. By 1928, the total expenditure had almost reached £6 million. The cost of the scheme which was originally proposed would to-day be about £14 million. It included the construction of 35 weirs and locks, for both irrigation and navigation purposes. As the result of a conference in 1928, called at the suggestion of the Development and Migration Commission, the full scheme will not be undertaken until costs have been examined more closely. Co-ordination between the States in their methods of construction and more standardisation are apparently badly needed. The Development and Migration Commission has proposed that an Interstate Advisory Committee on Irrigation Development and Production should be set up to bring about this co-ordination.[1]

12. The experience of Victoria is instructive. Before 1906, her irrigation was managed by various Trusts which were financed by State loans. In 1906, owing to financial difficulties due mainly "to sparse settlement and the absence of powers to make compulsory charges on properties commanded by irrigation channels," the State assumed control of all works except those at Mildura. The State Rivers and Water Supply Commission was formed and the use of all streams, lakes, marshes and lagoons was placed under its administration. The public storage of water has progressed rapidly in the last twenty years.

II, 4 & 10.

II, 7.

Water stored in	1902	was about	172,000	acre-feet.
,,	,,	,,	1919	,,	,,	569,100	,,	,,
,,	,,	,,	1925	,,	,,	871,610	,,	,,
,,	,,	,,	1927	,,	,,	1,161,640	,,	,,

When work in hand is completed it is estimated that the total will be about 2·3 million acre-feet.[2] Owing to the

[1] See Report of the Duckham Mission for a valuable criticism of the Murray scheme.

[2] Settlers obtain irrigation water under a system of "water rights." A certain amount of water is allocated to each irrigable acre and must be

enhancement of land values which takes place through the construction of irrigation channels, the Commission sometimes purchases considerable areas of land in advance. Recently there has been formed an Irrigation Research Committee to inquire into the possibilities of better irrigation methods, and investigations have been made into drainage problems in certain areas. In the Murray Valley the Commission is co-operating with the Commonwealth Council of Scientific and Industrial Research.

II, 11 & 21.

I, 1.

13. Considerable progress has been made in the supply of water for domestic and stock supplies in dry areas. In 1925, a Commission on Rural Settlement was appointed in South Australia "to inquire into and report upon the possibilities of increasing rural settlement with a view to promoting agricultural development in the State." In their first progress Report, they pointed out that settlers along the Murray frontage had repeatedly advocated the cutting up of areas into farms. The activities of the Victorian Government in providing water for domestic and stock purposes in the north-west Mallee districts had been followed with interest and it was believed that similar schemes could be inaugurated in South Australia. The Mallee district of Australia consists of a huge area in the northern parts of Victoria and South Australia, covered with sandy soil, stunted eucalyptus and blue bush. Until comparatively recently it was considered to be too dry to maintain anything except a few sheep, but Victoria has attempted to produce crops which require more intensive methods, through what are known as the Wimmera-Mallee and the Millewa Domestic and Stock Supply schemes. It was the success of the first scheme which prompted the growth of the second. The Wimmera-Mallee system serves an area of 7 million acres of land by means of 5,000 miles of channels. During the cooler months of the year, water

II, 4 & 10.

paid for whether used or not. Charges are based on the cost of supplying one foot of water to each acre, or in the case of lands cultivated less intensively, of supplying three inches of water to each acre. Costs vary from 6*s*. to 12*s*. per acre-foot for gravitation supply, and from £1 to £1 4*s*. per acre-foot for pumped supplies.

is run from the Wimmera River to the dry areas in the north, 300 miles away. The water enables a settler to maintain himself and his stock while his crops are growing. All farmers are compelled to dig tanks on their holdings sufficiently large for their requirements during the year. A larger tank does not, however, mean that a higher rate has to be paid, so that ample water provision is encouraged.[1] The total cost of the scheme is about £2 million or about 6*s.* per acre. It is claimed, however, that the enhancement in value over the whole area is not less than £4 to £5 per acre.

II, 1.

14. The Millewa scheme is one of Victoria's more recent efforts to encourage closer settlement in her borders, and is being applied to a million acres of Mallee land which has an average annual rainfall of 11 to 12 inches. A breed of wheat has been evolved which will grow in the area economically in normal years, when three-quarters of the annual rain falls during the growing season. The great needs of the area are transport facilities and water for stock and domestic purposes. A railway 55 miles long has been built from Red Cliffs (near Mildura), and several trains a week run out to the settlements. Conditions of tenure are somewhat as follows: Land is made available at about 12*s.* 6*d.* per acre in blocks of 500 to 800 acres. To meet the cost of the scheme, an amount of £80 is included in the price of each allotment, as well as a loading to cover the cost of roads. The total cost of blocks does not usually exceed £1 per acre. A deposit of £20 to £30 is necessary on taking up the land and an annual water rate has to be paid. Payment for the block can be spread over 36½ years. The Government will advance money on the security of any improvement carried out by the holder. The settler must preserve 2 to 3 per cent. of the natural timber in the hold-

II, 4.

[1] The full water rate is 5 per cent. of the selling value of the land, but this is applied to the lands which are within 1 mile of a channel. Half rates are charged on lands at a distance of more than 1 mile but within 2½ miles; quarter rates are charged on other lands. A new experiment is the provision of artificial catchments made of some impervious material from which water will be run into tanks. It is believed that a partial supply of water may thus be given to areas which cannot be reached by other methods.

ing, and as in the other scheme, he must build "a dam" (a tank) of at least a specified size and a channel from it to the main water-supply channel, which leads from the Murray for about 50 miles south-eastwards. Channels are dug in the sand and it is estimated that 75 per cent. of the water pumped along is wasted before reaching settlers' blocks. Nevertheless, no charge is made for filling dams, and it is anticipated that the annual water rate will cover all working expenses and interest on capital cost. This rate, as in the Wimmera scheme, varies inversely as the distance of farms from the main channel, and is very moderate.

II, 10.

15. In order to decide the economic value of these schemes to Australia it is necessary first to discover their money cost as accurately as possible, taking into account the time during which capital spent on them will be non-revenue-producing. Each scheme must be studied separately. Against the money cost must be put the estimated return from the schemes. This cannot be measured directly in terms of money. Useful criteria are the number of people attracted to the areas by the scheme, and the standard of life they would enjoy apart from other forms of assistance which they are receiving. It is only possible here to draw very general conclusions which show the nature of the problem rather than its solution. For example, in Victoria, apart from the Melbourne water supply, about one-quarter of the State is artificially supplied with water. By June 30, 1927, the total advances to the authorities responsible for this area (when money represented by written-off capital, expenditure on uncompleted and non-revenue-producing works, and unexpended loans is included) amounted to £19 million. The total population served by the schemes is estimated at 370,000. If the moderate assumption is made that on the average two-thirds of this population would not be living in the area were it not for the water supply,[1] the population attracted by the schemes may be put at 247,000, and the capital expenditure per head

II, 1–3.

[1] For the Millewa scheme, the proportion might quite fairly be placed at four-fifths.

£77. If it is assumed further that the economic return on the capital invested would be 6 per cent., the total return per annum should amount to about £1·1 million. The actual return in 1926–7 was just over a quarter of this. The kind of problem which has to be solved is as follows: Is it worth while, at a cost of three-quarters of a million pounds a year,[1] to help about a quarter of a million people obtain a livelihood and to encourage the settlement of many thousands more in the near future?[2]

When separate groups of schemes are examined, it is possible to bring slightly greater accuracy into the question. For example, the total capital expenditure on twenty-seven irrigation and water-supply districts in Victoria amounted, in 1927, to about £3·1 million. The population served was about 33,000. On the same assumption as before it may be said that 22,000 had been attracted to the area through the schemes. Since 1906, when the State assumed control, total receipts have reached £2¼ million, while the total expenses including interest on capital at 4 per cent., and depreciation, amounted to £2½ million. If 4 per cent. is considered a profitable rate of interest, the cost to the tax-payers of Victoria for each settler attracted has been about £11½. It should be noticed, however, that half a million pounds of capital debt has been written off and secondly that 4 per cent. is not a profitable return. If 6 per cent. is taken as an economic rate and this is charged on the whole capital expenditure, the schemes lost in 1926–7 about £73,000 or about £3⅓ per head of those attracted to the area. The present and ultimate benefits may easily outweigh this expenditure, but accurate generalisations are impossible.

16. In addition to providing coal, power and water, certain Australian Governments have begun to interest themselves in the handling and storage of agricultural produce, particularly wheat, both before

II, 4.

[1] If other land-settlement schemes under which advances and advice are given to settlers, are not on the whole self-supporting, their cost must be added to this amount. In certain areas, this addition would increase the total cost very considerably.

[2] Capital expended on uncompleted works, including that spent under the Murray Agreement, amounted on June 30, 1927, to £6 million.

it is put on rail and before it is finally shipped. Australia is a relatively new supplier of wheat to the world. In 1926–7 her exports were about one-third those of Canada, and a large-scale organisation of the export trade has become necessary.[1] The elevator system of Canada is now world-famous, as were the perpetual conflicts between the Canadian farmers and elevator companies, before the days of co-operation and Government supervision. New South Wales has therefore installed a government-controlled elevator system, with a view to obtaining modern methods of handling wheat with a minimum of friction. Victoria, which is becoming a large wheat exporter, watched the experiment anxiously and in 1925 sent a Commission to report on her neighbour's bulk-handling system from the point of view of finance, suitability of installation, the advantages to wheat-growers, millers, traders and transport interests, and to examine the extent to which facilities had been used.[2]

17. The history of the New South Wales scheme is briefly as follows: As early as 1906, a Select Committee was appointed to inquire into the question of bulk-handling, but it dissolved, having made no recommendations. Towards the end of the War, stocks of wheat purchased by the British Government had accumulated owing to the shortage of shipping. The demand from the wheat growers for legislative action increased, and in 1918, £639,000 were voted towards a system of bulk-handling. In 1919, a start was made with the construction of the Glebe Island Terminal Elevator at Sydney which has a capacity of 6½ million bushels[3] and cost £1½ million. By 1927, there were in existence as well, 66 country elevators costing over £2 million. The whole system is capable of storing 20 million bushels at one filling,[4] The system was used during the first three seasons by the Voluntary Wheat Pool, but is now under the control of a

[1] Annual exports during the five years ending 1927 averaged 64 million bushels. The equivalent figure for 1901–5 was 19 million bushels.

[2] It should be noted that in the terms of reference no mention was made of the Australian and overseas consumer.

[3] In 1926 there were in Ontario, Canada, 37 terminal elevators with a total capacity of 66½ million bushels.

[4] The N.S.W production of wheat has varied in the last six years between 29 and 60 million bushels.

N.S.W. GOVERNMENT WHEAT ELEVATORS, SYDNEY.

Wheat Commissioner and has been declared a general public utility open to all owners of wheat and dealers engaged in the trade. In 1926–7, 27 per cent. of the total crop of New South Wales was handled under the scheme. The function of the Government is to store and handle the crop. As in Canada, negotiable warrants are given to the farmer in return for his wheat. In the early stages, rates were fixed at a low level to overcome the prejudice and inertia of growers and the opposition of wheat agents at country stations. Accordingly the operating expenses only were covered, but in 1924–5 rates were slightly raised and it was expected that in addition 2½ per cent. interest on capital would be paid. From figures given in the latest New South Wales Year Book it does not appear as though these hopes were realised. In 1926–7 the actual volume of wheat received was considerably greater and results may be more favourable.

II, 9 & 10.

18. The advantages of the scheme are considerable. In the first place it will enable payment to be made to the farmer according to the quality of his product. At present any wheat is accepted which is of "fair average quality."[1] Grading and payment according to hardness, colour and cleanliness, is likely, however, to be adopted, as in Canada.[2] Secondly, the high and fluctuating cost of wheat bags will no longer seriously affect the grower. Thirdly, the concrete silos prevent damage to the wheat through fire, heat and mice. Fourthly, the simplification of loading both on trucks and ships will lower freight rates. Against this must be set the fact that some of the former benefits of the Australian

I, 7.

I, 15.

[1] In 1926–7 "f.a.q." applied to wheat weighing 61¼ lb. per bushel.

[2] The reasons why this step has not been taken are, first, bulk-handling is not sufficiently general in Australia; secondly, Australian wheat is of a more uniform quality than Canadian; thirdly, a change would upset British and foreign buyers, who would, says the Victorian Report, be confronted with a new proposition. That the third reason is probably sound, is borne out by the fact that in the early days of the scheme, buyers would not purchase Australian wheat in bulk except at 1*d.* per bushel less than they quoted for bagged wheat. This concession was granted at the time in order to dispose of early bulk cargoes and from then onwards bulk wheat has been reduced from ¾*d.* to 1*d.* per bushel below bagged wheat, "the buyers being strongly averse to relinquishing a concession in price once it is established in that way."

combined harvester, which cuts, threshes and bags the grain at one operation, may no longer be felt quite so strongly, and also that the cost of handling wheat in bulk is as yet no cheaper than that of handling it in bags.[1] At present wheat is transported from farms in bags which are emptied into the silo and returned to the farmer. The use of bulk waggons is, however, growing.

The Victorian Commission found that the wheat growers of New South Wales who used the country and terminal elevators, benefited by the system, especially during the season of the inquiry, when the price of corn-sacks was unduly high. Increasing use was being made of the facilities offered and growers were satisfied with the management, " its efficiency being apparent in the smooth working of the system and keeping the country and terminal elevators free from congestion, so that all f.a.q. wheat offered thereat was received." Shippers of wheat, grain merchants and flour millers were unanimously in support of the system, though several warned the Commission against future financial difficulties. The Commission recommended the installation of a bulk-handling system in Victoria, large enough to handle 80 per cent. of the wheat crop. They added, however, the following proviso : " The growers must not be induced to forsake the bulk-handling system because of any temporary reduction in the price of the corn-sacks.[2] It is only in this way the undertaking can hope to become self-supporting and not be a serious burden on the finances of the State. Unless the growers are prepared to recognise their full responsibility in this regard towards an expensive scheme it will be better not to proceed with the work." So far no scheme has been brought forward by the Victorian Government.

I, 10.

19. In many countries land transport facilities are, to some degree, supplied by the State. The most important means of transport provided by Australian Govern-

[1] The farmer saves the cost of the bags, but his handling charges are slightly greater than before. This excess amounts to about $\frac{1}{2}d.$ per bushel.

[2] One of the reasons for the Commission's recommendations was the possibility of a shortage of bags through the failure of the Indian jute crop, strikes, a shipping dispute, or war.

ments, other than the roads, are the railways.[1] So much has been written upon State ownership of railways that it seems advisable here to mention the only main facts of the present position in Australia. Ownership, administration and control of railways is the settled policy of all Australian Governments. In all States, management is placed in the hands of a more or less independent Commissioner or Commissioners, in order that political influences may be prevented. To help settlement in rural districts, lines are frequently constructed which cannot be commercially successful for a considerable period, but on the whole "the general principle that the railways should be self-supporting is kept in view."[2] The first line was opened in 1855, but progress during the next twenty years was slow owing to the difficulty of obtaining capital. Since 1875, mileage has steadily increased and to-day practically the whole of the 25,000 miles of line open are owned by the State. As a result, Australia, in 1925, had more miles of railway per thousand inhabitants than any other important country in the world, though she had almost the shortest length of line per thousand square miles of territory. In spite of the relative scarcity of traffic, rates and fares compare favourably with those in Great Britain.

II, 4.

20. Between 1922 and 1926, the average loss on capital cost of construction and equipment of the Australian State railways as a whole, amounted to ·9 per cent. (In 1925 it was ·18 per cent., and in 1926 2·42). The largest deficits have been in Queensland and have averaged over the period almost 3 per cent. (The percentage of loss in 1926 was 3·08.) The Queensland Government maintain[3] that while

[1] Australian roads, bridges and ferries are constructed and maintained either by local authorities or by the State Governments. In the oldest colony, New South Wales, of 105,000 miles of roads, in 1924,

23,000 were metalled, ballasted or gravelled.
16,000 formed only.
33,000 cleared only.
33,000 natural surface.

105,000 miles.

[2] *Commonwealth Year Book*, No. 6, p. 695.

[3] Statements of Minister printed in Brisbane *Courier*, 11/7/25, and *Daily Standard*, Brisbane, 20/4/25.

they try to keep the deficit as low as possible, the aim of the railways is social service and not commercial profit. Increases in rates and fares since 1914, it is pointed out, have been less than in any other Australian State,[1] and lines built in remote districts cannot, for a considerable time, be expected to contribute towards expenses. If rates had been increased as much as in other States there would have been a considerable profit. "Instead of compelling the users of railways to make up the deficiency in Queensland, the Government is meeting the deficit by taxation upon the wealthy shareholders in shipping, banking, insurance and other companies. We recognise that in a young, large State such as Queensland, railways should be regarded as an instrument to help in the production, development and settlement of the State. This is preferable to charging full working costs to the producers and industrial workers." Working costs per train-mile are well below the average of the Commonwealth.[2] Figures are not sufficient to form the basis of a final opinion, unless a detailed comparative study is made of the question, which takes into account the experience of other countries. Nevertheless, it appears that the usual stock arguments against State railways must be considerably modified. The position in New South Wales is similar. In reviewing the record of the Railways, Tramways, the Sewage Board, and the Harbour Trust, of the past twenty years, the Auditor-General remarks:[3] "The result illustrates the principle on which each of the States' business undertakings is conducted, namely, that an efficient service to the public be

II, 4.

[1] The Government stated in 1925 that the price of coal had increased 87 per cent. and of rails 73 per cent. The increase in fares is only 25 per cent. In 1924 the average rates in Australia were as follows:

	50 *miles.*	200 *miles.*	500 *miles.*
2nd Class Passengers . .	6/5	24/6	53/8
(Queensland)	(6/3)	(20/6)	(43/–)
Goods (Lowest class freight) .	4/1	10/2	15/11
(Queensland)	(3/10)	(8/4)	(15/8)

On the highest class goods, which include expensive, bulky or fragile articles, Queensland freights are mostly above the average.

[2] The average working expenses per train mile, 1922–6, were as follows: N.S.W., 121*d.*; Victoria, 125*d.*; Queensland, 112*d.*; South Australia, 110*d.* (1922–5); Western Australia, 120*d.*; Tasmania, 91*d.*

[3] Report of Auditor-General, N.S.W., on Business Undertakings, 1925–6.

VICTORIAN STATE RAILWAY YARDS MELBOURNE.

provided at a cost which shall provide for a small working surplus after meeting the year's working expenses and paying interest invested in capital." "The various liberal concessions granted by the Commissioners under by-law, while adversely affecting the return for the conveyance of traffic, favourably react to the economic benefit of the State in the fostering of the extractive, manufacturing and live-stock industries."

State control of railways in Australia has had both advantages and disadvantages, and in discussing future developments there appear to be three main points which should be emphasised. First, State railways avoid the necessity of making grants of Crown lands to private firms, and when construction is carried out in conjunction with settlement schemes, the State is able to obtain the resulting increases in the value of property. Provided the income from these increases is spent in the national interest, State ownership is likely to be advantageous. Secondly, the main question which influences a private railway company in deciding whether to open up a new area, is that of ultimate profit. Consequently social needs are frequently starved. A Government, on the other hand, thinking of its voters and parliamentary interests, may overlook important economic issues. A State will open lines before settlement has taken place, with more readiness, probably, than a joint-stock company. In so far as undesirable political elements have not influenced their decisions this is likely to be advantageous, but in the past there has been much waste. Railways have been built in areas which could attract parliamentary influence, while the needs of other nationally more important areas have been ignored. The classic example of waste brought about through political jealousy is the construction of railways in Australia, with different gauges for each State.[1] The cost of obtaining a 4 ft. 8½ inch gauge over the whole of Australian railways was estimated in 1921 at about £60 million. Management through independent Commissions

[1] The declared extent of waste has been much exaggerated, for it is not usually mentioned that the provision of a narrow gauge in Queensland and Western Australia has meant that the cost of track per mile has been considerably reduced.

is, perhaps, likely to prevent a repetition of such an absurdity. Nevertheless, Railway Commissioners, in the same way as private companies, are apt to disregard the need for other forms of transport. In this connection, the findings of the Royal Commission on Outer Ports in 1925 is of interest. "In Victoria, the construction of railways, by concentrating trade at the central ports has caused the neglect of sea transport and the consequent decay of maritime centres and population." There was a general complaint that "on the completion of harbour works at very large expenditure, the Railway Department, by a system of freight-cutting, deliberately set out to destroy the effects of allowing the produce of the districts to reach markets in the cheapest way—by sea transport—carried it past the ports and practically destroyed the outward shipping trade." It was further declared that it was to the interest of the railways to discourage outer ports as they encourage motor competition. The railways have also been criticised because of their attitude towards the improvements on the Murray, which could be used as an inland highway leading to the sea. The existence of a Murray port might, however, mean a loss of trade to Melbourne and Adelaide. Therefore, it is declared, the two States are "pursuing policies of criss-crossing the Murray with railways, building necklaces of railways around it, in order to drag every possible ton of traffic away from the river to remote city seaports."[1] It is possible that some Federal control of all kinds of transport would lessen difficulties of this kind.

21. As in many other parts of the world, ports in Australia are controlled by public bodies. The chief ports are Sydney and Melbourne, and in 1925–6 about 9 million net tons of shipping entered Sydney, and about 7 million entered Melbourne. Apart from 5 million tons coming to Newcastle, practically all the tonnage entering New South Wales and Victoria went to these ports.

II, 4.

Melbourne, with a population of about 900,000, has a Harbour Trust which was constituted in 1876 as a result of

[1] F. M. Cutlack, "The Murray Valley," Article in Canberra Supp. *Sydney Morning Herald*, 9/5/27.

public agitation. For a long time previously, demands had been made for reduced landing costs and less delay in receiving goods. In 1912, the Trust was managed by five Commissioners appointed by the Governor-in-Council. They consisted of a Chairman and four members representative of the interests of ship-owners, exporters, importers and primary producers. All wharves and piers in the Port are under the control of the Commissioners. Between 1876 and 1926, the capital expenditure of the Trust amounted to £6½ million. The average annual net surplus on revenue account during 1916–1925 amounted to about £47,000 after expenses for management, interest, a payment of £90,000 to the Victorian revenue, maintenance expenses and depreciation and sinking fund charges had been met. Average annual capital expenditure over the same period has been about £¼ million.

22. At Sydney the wharves were in private hands until 1901, and had been constructed to meet the requirements of individual owners. The city, which now has over a million inhabitants, had grown up without plan, and the provision for shipping access to the wharves was in many instances very unsatisfactory. Conditions were so bad that the Government assumed control of all harbour works and foreshores and formed the Sydney Harbour Trust. The Trust has now been reduced to what is considered the most desirable size and contains a President and two members. Between 1901 and 1926 nearly £7 million had been spent on improvements. After meeting expenses and interest the total surpluses less deficiencies, since 1901, amount to £1⅓ million.[1]

II, 4, & I, 10.

23. The following, taken from a Report on Transport in Australia, published in 1927,[2] is the opinion of a world expert on port administration: "Sydney and Melbourne, not only by virtue of their trade and finance, but also as the result of good management and the amenities they offer to shipping, may fitly be ranked amongst the great ports of the

[1] A deficiency occurred in four years. In 1926, the net surplus amounted to £163,000.

[2] Sir G. Buchanan, *Report on Transport in Australia, with special reference to Port and Harbour Facilities*, Vol. I, Part V, 1927.

world. . . ." "Generally speaking, however, if port administration in Australia is to be successful . . . the broad principles laid down . . . should be adopted unreservedly, and no deviation from them should be permitted, whatever the temptation." These principles mentioned are briefly as follows: (*a*) The whole of the foreshores within the port area should be under the absolute control of the State, exercised either directly or through a public corporation or Trust. (*b*) The administration should be free from political influence and should include representatives of the various bodies interested in the welfare of the port. (*c*) The port should be self-contained financially, and revenue should be expended solely in maintenance and development. (*d*) Everything using the port must contribute to its upkeep. (*e*) Capital charges should be adjusted equitably between this generation and the next. Finally it should be remembered that a port is never finished. It is "a funnel through which the commerce of a country flows. It exists for the benefit of the community at large and assists in the development of the country." The Report declared that the present form of administration was not sufficiently scientific, advocated for all Australian ports Government control with a minimum of Government interference, and suggested that self-government should be given to Harbour Trusts. It was recommended that control over transport, which included railways, main roads, major ports, shipping, pilotage and aviation, should be assumed by the Commonwealth Government.[1]

I, 10. II, 4. II, 11. II, 1.

24. Brief mention may also be made of the government ownership of meat markets and abattoirs in the metropolitan districts of Sydney and Melbourne. In 1915, there was set up in Sydney, a Metropolitan Meat Industry Board whose main duties were to control and maintain all public abattoirs, sale-yards and meat-markets. With a few exceptions, all slaughtering in the metropolitan area has to be carried out at the public abattoirs, no meat may be brought from outside the area without the consent

II, 4 & 7.

[1] Par. 534, Vol. I.

of the Board, and all meat must be inspected before being delivered to retailers.[1] In the same year the State opened abattoirs at Homebush Bay, close to the Flemington stock sale-yards. Butchers buy stock at the yards and supply the labour for slaughtering, paying a fee for the use of the abattoirs. Killing is done during the day and meat is placed in a chilling-room. Soon after midnight it is sent by train to the retail city butchers. The total capital expenditure on this concern is about £1½ million, and in 1925, after allowing for interest and depreciation, the net profit was £11,165. The total number of animals slaughtered at Homebush in 1927, was 3·3 millions, of which 2·7 millions were sheep and lambs.

During 1924, two-thirds of the sheep and half of the cattle consumed in Melbourne were killed at the Melbourne City Abattoirs. Three private and four other municipal abattoirs disposed of the remainder. The Melbourne Town Planning Commission in 1926 recommended that an area of 3,000 acres should be set apart about 9 miles from the city, for markets, abattoirs, export works, railway sidings, resting paddocks, and for all the by-product establishments. The site suggested lies about three-quarters of a mile south-west of Sunshine, and is crossed by the transmission line of the State Electricity Commission from Morwell to Melbourne. The Commission pointed out that every delay " in pursuing a settled and far-sighted policy militates against Victoria's capture of the overseas trade, and will make more costly the eventual removal owing to the increase of vested interests which always accumulate with time." [2]

II, 1.

25. Even a detailed impartial inquiry into the working of all these concerns, would not enable an accurate opinion to be formed as to their effect upon the economic welfare of Australia. Such an inquiry has not been made, as in Australia the wide opportunities available tempt people

[1] 1915. N.S.W. Meat Industry Act; see also N.S.W. Year Books.

[2] An interesting experiment in public ownership which might also be mentioned is concerned with the Nauru and Ocean Island phosphate deposits which were bought in 1919 by the British, Commonwealth and New Zealand Governments. In 1924–5 about ½ million tons were produced, of which over 70 per cent. went to Australia. Management is in the hands of a Commission of three members.

to do things, without exploring deeply into the whys and wherefores of their action. In certain directions, if positive action had been delayed for a comparatively short period and an inquiry had taken place, many difficulties could have been avoided. In Great Britain, few recent descriptions of Australian experiments exist because economists have either not wanted or have not been able to spare the large part of a year which a visit to Australia would involve. Australia has, however, trained a number of economists herself, and detailed researches are beginning to appear. It is clear, therefore, that it will not yet be right to pursue a policy of praising one enterprise and condemning another. It may prove useful to suggest how these experiments fit into a scheme of economic control. First, apart from the two difficulties already mentioned, the inefficiency brought about through too rigid systems of payment and the fear of interference by Parliament, the operation of some industries by the State tends to lessen the influence of anti-social preferences, due to the tendency of individuals to prefer the present to the future, and to consider their own interests rather than those of society. The attention of people at home and abroad has been attracted towards the development of Australian resources through the issue of loans, and more savings have been produced in the form of power schemes, transport facilities, or irrigation, than would have been produced under a less "artificial" policy. In irrigation, electricity and port development, the State has had to remedy the existing state of "freedom." The savings of investors in Australia, Great Britain and the U.S.A., have been encouraged into what appear to be socially desirable channels.[1] Whether the quantity and quality of the provision is sound, time alone will prove. In all cases there has been a tendency to render less unequal the return to individuals and to the community, from investment of capital or effort. Extremely high returns to individuals are prevented. On the other hand, the tendency to see that the return to the

II, 1–10.
III, 5.
II, 10.

[1] For amount of recent borrowing see Pt. III, Chap. VI, par. 37. See also the Report of the Duckham Mission to Australia in 1927.

individual is increased as his service to the community increases, has not become much more marked. This is one of the greatest defects of State control. The effects
I, 1–2. of ignorance and inertia upon the use of natural resources have definitely been lessened. Coal, water-power and dry areas are being developed in a scientific manner, and with far greater publicity than if the work had been carried out by joint-stock companies. Invest-
I, 4–8. ment by the State in human capital, while it may not be as sound as that of the best employers, is usually considered to be above the average. There is the risk that the State's treatment of its workers may not encourage maximum efficiency, and will allow a certain amount of slackness which would not be tolerated in a purely commercial concern. This risk has been realised and exploited noisily by certain sections of the public. Remedial measures do not seem to be appearing, though
I, 12, 13, 14. they could be introduced fairly easily. While there is no reason why co-operation between employer and employee should be more marked in a State enterprise than in a well-conducted private concern, co-operation between industrial units can certainly be encouraged. This applies not only to units in the same industry, but to different State enterprises ; for example, co-operation is desirable between the railways and the elevators, or the coal and power schemes, and the railways. The tendency to selfishness among State enterprises, illustrated by the present sacrifice of certain forms of transport to the railways, must, however, be guarded against. Co-operation between the various States of the Commonwealth has, as yet, a long way to develop, though irrigation work is being carried out jointly by four Governments, and agreement has just been reached concerning their general financial relations with one another. It appears that the immediate interests of consumers can on the whole be more effectively safeguarded in State concerns as more information as to costs is available.
I, 15. Stability and standardisation are definitely en-
II, 24. couraged. There is the risk that they may involve some degree of stagnation, but this can be prevented if

management is put on a sound basis. The obstacles from "indivisibility" can be considerably reduced under State ownership. Land can be split up more economically and units of industry divided with much greater ease.[1] It may therefore be said that State ownership has, in certain types of industries, many advantages over private ownership. It also has many serious drawbacks which are not inevitable. How these can be removed is one of the big problems which Australia has to face.

II, 21–28.

[1] Apart from opposition due to selfishness and unsatisfactory methods of remuneration inside the administration, referred to previously.

CHAPTER II

PUBLIC CONTROL OF AN INDUSTRY

1. The Australian sugar industry and economic control. 2. The sugar area. 3. White labour. 4. The structure of the industry. 5. By-products. 6. The 1924 sugar agreement. 7. Its working. 8. Other methods of control. 9. Need for control over amount of land taken up. 10. Control over labour conditions. 11. Union preference. 12. Increase of foreign immigration. 13. Summary. 14. Basis for judgment. 15. Efficiency on farms. 16. Efficiency in mills. 17. Efficiency in refining. 18. Other factors affecting efficiency. 19. Cost of control to the Australian consumer. 20. The possible indirect benefits of control. 21. Conclusion.

1. The Australian sugar industry offers the best example of an attempt to co-ordinate the working of many of the methods described in Part II. Every branch of the industry is under the control of Federal or State Governments, working directly or indirectly through representatives of the industry itself. Simple competition has in practice manifested the shortcomings attributed to it by modern economists, and at various times in the history of the industry steps have been taken to remove these shortcomings, as well as to protect the industry and the consumer against monopoly in Australia and abroad.

2. Australian cane sugar is at present grown in a strip of country, stretching through Queensland and the north of New South Wales. The belt is about a thousand miles long and never more than thirty miles wide, extending southwards from the Mossman River in the Cape York peninsula. Annual production has been as follows :

Average.	Thousand tons.	Net annual exports. Thousand tons.
1901–6 (average)	139	—·052
1916–21 ,,	218	—·073
1921–26 ,,	368	·024
1924–5	427	80
1925–6	518	208
1926–7	413	150

It will be noticed that production has rapidly increased, and during the last few years a considerable export trade has developed. The industry is of a scattered nature and, as cane is a bulky and perishable crop, sugar farms tend to concentrate round a mill, which crushes the whole crop of the district. This dispersion of mills is considered to be a good thing, for it seems that no other industry could yet take the place of sugar-growing, and a more centralised development would have meant that many tropical and sub-tropical regions would never have been occupied.[1] The claim of the growers is that their industry is " the essential and natural industry for the coastal regions of the north. For any other purpose the land would not be worth one-tenth as much as for sugar, for there is no other crop which at once requires broad acres and intensive cultivation."[2] Sugar-growing is acclimatising the white man to the Australian tropics where, according to general medical opinion, " there is no insuperable obstacle in the way of permanent occupation . . . by a healthy indigenous white race."[3] Australian authorities on tropical diseases state that if the white man in the tropics could be persuaded to eat more suitable food, wear less clothing and build appropriate houses,[4] there would grow up in the North a race of people physically equal, or even superior, to those of the South. In 1921, there were 135,000 inhabitants of the northern sugar areas, the majority of whom were dependent upon sugar for a living.[5] South of Mackay (lat. 21° S.) there has been a gradual change from sugar-planting to dairying, and to-day the Far North contributes about two-thirds of the total crop. This proportion is likely to increase, for the North is free from drought, yields mature

[1] Report of Sugar Commission, 1920.

[2] Memorandum submitted to Empire Parliamentary Delegation on behalf of the Australian Sugar Growers Association. *Empire Production and Export*, Jan. 1927.

[3] Resolution of Australasian Medical Congress, 1920. Contained in a pamphlet by the Director of the Australian Institute of Tropical Medicine.

[4] For example, corrugated iron roofs are common in North Queensland.

[5] The population of the Far North of Queensland increased, between 1900 and 1921, from 110,000 to 135,000 in spite of a fall in production from the mining and pastoral industries.

canes several months earlier than the more southerly parts of the belt and allows two or three ratoon crops to be grown.

3. Australia is the one country in the world where cane sugar is grown and crushed on a large scale by white labour.[1] There is a marked difference in efficiency between the white man who works for good wages under civilised conditions and the imported coloured man who received only a few shillings a month which he had never been taught how to spend. In the arduous work of cane-cutting, Kanakas used to average about 1½ tons a day, while the average of the white man to-day varies from 3½ to 4½ tons a day, according to district. A picked gang, working under favourable conditions, averaged during the 1924 season about 7 tons per head daily. But from the point of view of labour costs alone, the high wages[2] outweigh the extra efficiency and represent about 78 per cent. of cane-growers' costs and 55 per cent. of milling costs. Under these conditions, it seems, that if the policy had been followed of enabling people to buy in the cheapest market, sugar would have been imported into Australia and the "white" sugar industry would not have survived.

IV, 9.

4. Production is divided into three main sections: growing, milling and refining. There are about 7,000 farmers, 40 mills (37 in Queensland and 3 in New South Wales), and 6 refineries (which are situated in cities, 2 in Queensland, 2 in Victoria, 1 in South Australia and 1 in New South Wales). The farms are, on the whole, owned by "small men."[3] The mills are of three kinds: Proprietary, Central and Government Mills. The Proprietary Mills are owned by joint-stock companies or private individuals. Eight of

[1] One of the first acts of the Federal Parliament was to arrange for the deportation of Kanaka labour from Australia.

[2] Rates for cane-cutting vary from about 7*s.* 6*d.* to 16*s.* per ton, according to the quantity of cane per acre. In the crushing mills the minimum wage is about 2*s.* 5*d.* per hour.

[3] In 1923, according to returns from the main sugar areas of the State, the number of suppliers of less than 500 tons of cane was:—3394; suppliers of 500–1000, 712; suppliers of over 1,000 tons, 498. See judgment of Queensland Arbitration Court, *Queensland Industrial Gazette*, Sept. 1924. In 1927 the average size of Queensland plantations was 35 acres.

these belong to the wealthy Colonial Sugar Refining Company. The Central Mills are the result of a series of Acts dating back to 1887, under which growers have borrowed money from the Government to start mills of their own. Dividends from these mills are limited to 5 per cent., but none can be declared until the Treasury advances have been paid. The Government takes no part in the management so long as interest and redemption payments are reasonably met. On completion of payments the mills will belong to the shareholders. Lastly, there are the six Central Mills which have at some time or other failed financially and have been taken over by the Government.[1] Lack of foresight on the part of members frequently destroys the efforts of co-operative societies in all parts of the world. As far as these mills are concerned, the trouble has been bad management rather than disloyalty. Refining is carried out mainly by the Colonial Sugar Refining Company Ltd.

5. There are three main by-products of the industry ; the deposits left in the filter presses, molasses and the residual crushed cane from the mills, known as megass. The filter press residue is used as fertilizer or cane wax. The megass is usually burnt as fuel for the mills. There are great possibilities of improvement in the use of molasses. From the 37 Queensland sugar mills in 1925, 18 million gallons of molasses were recorded as being produced.[2] Of this, $3\frac{3}{4}$ million gallons were sold to distillers and others, $3\frac{1}{2}$ million gallons were burnt, 2 million gallons were used as fodder, $1\frac{1}{4}$ million were used for manure, $1\frac{2}{3}$ million gallons were kept in stock, while $6\frac{1}{4}$ million gallons were run to waste.[3]

6. A detailed historical study of the industry would be of great interest to a student of methods of economic control. It will be necessary here to ignore a large number of past developments and concentrate upon the present position,

[1] See Annual Report on Government Central Sugar Mills, 1927.

[2] A great deal was produced besides but was allowed to run to waste. The commercial value of molasses is shown by the growth of United Molasses Ltd., a British Company which was formed in 1926 with a capital of £1 million. In 1928 its capital was £2½ million.

[3] See paragraphs 20 and 21 for recent developments in the use of by-products.

which, it will be seen, is sufficiently complicated to be worth attention. Since 1923, the importation into Australia of almost all kinds of sugar has been prohibited. By agreement between the Commonwealth and Queensland Governments, it was arranged that the embargo should be continued until August 31, 1928.[1] This logical conclusion of a strong protectionist policy is only given to the industry subject to certain conditions. First, the prices of refined [2] sugar must be the same in the main distributing centres of the Commonwealth. Secondly, these prices must be as follows, subject to payment of net cash :—

V.

V, 10.

(*a*) Retail price, 4½*d.* per lb. (£42 a ton).

(*b*) Price to grocers and housewives buying in not less than ½-ton lots, 4*d.* per lb. (£37 6*s.* 8*d.* a ton).

(*c*) The net wholesale and manufacturing price for products other than fruit, for home consumption, £36 11*s.* 9*d.* a ton.

(*d*) Manufacturing price for processing fruit for home consumption, 3¼*d.* per lb. (£30 6*s.* 8*d.* a ton).

These prices were based upon the findings of a Tribunal consisting of a Judge of the Supreme Court as Chairman, and four members; one representing consumers, one the Commonwealth Government and two nominees of the Queensland Government to represent the sugar industry. After taking the five-year records of several districts, the Tribunal decided that £27 a ton was a fair price for raw sugar if there were "efficient production in reasonably good districts and under normal conditions." The remainder of the price had to be divided between refiners and grocers. Thirdly, sugar for all exported manufactures must be supplied at the Australian in-bond equivalent of the world's price.[3] The fourth condition is that any loss arising from surplus sugar exports must be met by the sugar industry itself.

[1] The embargo, which has been extended until 1931, is now given subject to the condition that those engaged in the production and transport of the crop shall observe the terms of industrial awards.

[2] "Mill White" sugar may be sold at a slightly cheaper rate.

[3] The Australian in-bond equivalent is calculated by a committee of three, representing the Commonwealth Government, the sugar industry and the manufacturers.

7. Whatever else this agreement may have done, it has definitely stabilised the price to most consumers, while those manufacturers whose goods are exported obtain their sugar at the world price. Inside the industry there have also been remarkable developments, which, taken together, have produced most striking results. Under the Sugar Acquisition Act of 1915, the Queensland Government purchases all sugar, after it has been milled, at a price fixed to cover the average cost of production of raw sugar including "fair profits to growers and millers." The price is fixed by a Sugar Board consisting of a Government chairman, two growers' delegates and one millers' delegate. Their remuneration is obtained from the sugar producer. In addition to its functions of price-fixing, it acts as an advisory body to the Queensland Government and carries out the executive work associated with the acquisition and disposal of the sugar crop. In 1926–7, 81⅓ per cent. of the total production was consumed in Australia, and on that portion of the crop £27 per ton was paid, less £1 per ton, to defray the expenses of the Sugar Board and the cost of concessions which had been made to special types of consumer. The remaining 18⅔ was exported, and for that portion £14 18*s.* 10*d.* per ton was paid to the millers. The average price received by the industry was £24 10*s.* 10*d.* per ton of raw sugar. The Board sold the sugar to the Colonial Sugar Refining Company and the Millaquin Refining Company, who have agreed to act as agents of the Queensland Government and are responsible for refining and distribution.

I, 15.
II, 10.
I, 20.

8. The price received by the miller is, as has been mentioned, sufficient to cover the production costs of both growers and millers. The proportion to be received by growers and millers in each district is fixed by District Cane Prices Boards, from which there is right of appeal to a Central Board. These Boards are set up under the Sugar Cane Prices Acts of 1915–22. A District Board can be constituted if application is made by the owner of a mill, or by not less than 20 cane-growers.[1] There

I, 20.

[1] Or one-third of the growers if the number does not exceed 60.

may not be less than two or more than four members to a Board. The Chairman is appointed by the Governor in Council. Half the members represent mill-owners and half cane-growers. The Central Board consists of a Chairman who must be a District Court Judge, and four members who include representatives of growers and mill-owners, a qualified chemist and a person experienced in accounting and audit. The expenses are met by a levy of 1*d.* (or other amount which may be fixed) on every ton of sugar received at a mill. It is claimed that these Boards have revolu- III, 5 & 8. tionised the industry.[1] They have introduced a I, 7. system of payment to the grower according to results, whereas previously the man who sent in the greatest weight of cane received the largest reward, whatever the sugar content of his crop. The grower has therefore been compelled to become a student of cane varieties and of modern methods of cultivation. In the past it was often the inefficiency of the mill which fixed the price received by the grower. Millers to-day, if they are to cover their costs, have to reach a co-efficient of efficiency of 90 per cent.[2] The Boards have also, it is claimed, helped to turn the farmer into a business man, for before he can concentrate upon remunerative types of cane, detailed cost accounts must be kept of each, and those with a low sugar content eliminated.

9. It is obvious that control of prices in all branches of the sugar industry will become very difficult if some control is not exercised over the amount of sugar produced. In 1920 the number of growers in the industry was 3,930. In 1925 these had increased to 6,730. A start has been made

[1] *Queensland Producer*, March 3, 1926. Cf. also Jethro Brown, *Prevention and Control of Monopolies*, Chap. XI (J. Murray, 1914). The refiners used to fix prices low enough to prevent large imports, but their profits were only limited otherwise by the possibility that growers and millers would be forced out of existence. The mills did not often compete with one another, and growers could not threaten to leave their farms and were often in debt to the mills. The growers who were mill shareholders had the others at their mercy, and what they lost on cane-selling they gained in cane-crushing profits. As the Commission of 1911 remarked: "The refiners dictate prices to the millers, the millers dictate prices to the growers." The return to the grower was found to be inadequate.

[2] *Queensland Producer*, March 3, 1926.

to discourage new growers. In February, 1925, the Central Cane Prices Board decided that no further assignments of new land should be made. In the following month the Sugar Board passed a resolution that applications by growers to plant new land were to be refused. At the annual meeting of the Council of the Australian Sugar Producers Association in 1927, it was decided that "the problem of over-production is, for the present at least, best left in the hands of the Central Sugar Cane Prices Board."[1] The difficulty was somewhat relieved owing to a reduction in the 1927 crop. The recent preference granted to Empire sugar entering the United Kingdom has helped the Australian producer considerably.

II, 4 & 7.

10. In the prices which growers, millers and refiners receive, allowance has been made for "sufficient" wages and conditions to workers in the industry. The industry has practically no coloured labour and minimum wages and conditions for workers are laid down by the State. In Queensland, the Arbitration Court between 1914 and 1924 made "several exhaustive inquiries into the conditions of the industry."[2] The Court has not founded its awards upon the prosperity of the industry "but has endeavoured throughout to base the wage in the industry upon a minimum as fair to the sugar worker, with his irregular employment, as is the basic wage to an average employee in fairly regular employment." The Unions, in 1924, made an application to the Court for an increase in wages owing to the alleged prosperity of the industry which was said to be due to high profits and "fabulous prices for land." The Court in its award declared that only a very small proportion of farmers were getting large profits out of the industry, and laid down a scale of wages for field-workers and mill hands "with due regard to the conditions in the industry."[3] The first part of the award is of a

I, 6.

[1] *Australian Sugar Journal*, April 12, 1927.

[2] *Queensland Industrial Gazette*, Sept. 1924, p. 608.

[3] For example, pieceworkers have the right of selecting the members of their own gangs and may refuse the admission of any person to the gang; but if they are unable to cut a requisite amount of tonnage the employer may call for a larger gang or increased tonnage, or may add an additional member to the gang (subject to the approval of the cane inspector).

general nature and deals with definitions, the employment of coloured labour, the prohibitions of premiums in connection with contracts of employment in the sugar industry, the settlement of disputes, the recognition of Union officials and the provision of food and accommodation. Minimum wages are fixed for field workers over 18 years of age, varying from 1*s.* 11*d.* to 2*s.* 1½*d.* per hour, or from £4 5*s.* to £4 13*s.* per week. Hours may not exceed 44 per week and overtime must be paid for at "time and a half" rates on week-days and double rates on Sundays. Arrangements are made for overtime payments for work on 12 single holidays during the year, and for compensation if time is lost, through no fault of the workers.[1] Times of payment, the conditions of engagement and piecework are also regulated, and cane-cutters' agreements are dealt with in considerable detail. Finally, provision is made for the supervision of wage payments to the few remaining coloured employees, and for preference to unionists. Similar conditions are laid down for sugar mill and refinery workers.

I, 8.

11. The Award, which applies to the whole Queensland industry, lays it down that, with a certain very minor exception, no coloured labour may be employed in cane-cutting or in the cultivation of sugar-cane on farms having more than 40 acres of land under cane. Almost all the sugar workers, of whatever nationality they may be, are members of the Australian Workers' Union. This membership is encouraged by the award, which gives preference of employment to unionists, provided they are "willing, ready and competent to perform their work to the satisfaction of their employer." This condition can be enforced by the Arbitration Tribunal. For example, the President remarked in a fairly recent judgment, that events in certain districts in which "the Award was defied by a large body of men, must lead the Court to seriously consider whether the unions concerned are in a position to control their members. As the employers do not resist a

I, 11.

[1] No compensation is granted when time is lost through floods, cyclones, certain types of strikes or a breakdown in the mill.

renewal of the present provisions as to preference, we think that it would be as well to renew them. But it must be pointed out that if similar events occur again the Court may consider the abolition of the preference clauses. So far as the Australian Workers' Union is concerned, it behoves them to be careful not to refuse tickets to men who are qualified to become members of the Union."[1]

12. Although about three-quarters of the cane is supplied by British growers, the number of foreigners in some parts of the sugar belt has been increasing, and in 1925 the Queensland Government appointed a Commission to inquire into the social and economic effect of the increase. The Report states: "During the past six months foreigners have been arriving in the sugar districts in North Queensland in such numbers that it is obvious that they cannot all be employed in the sugar industry in which there is already over-production, and a consequent limitation of the area to be cultivated and a limitation of necessary labour. While possibly sufficient labour has been waiting for months in the districts in the hope of obtaining work in the crushing season, the arrival of hundreds of Southern Europeans, unable to speak the language, with very little money and looking for employment, is creating an anti-foreign feeling which may lead to serious trouble in the near future." The greater number of immigrants were Italians, but it is recognised by unionists as well as others that the Northern Italian is a good type of settler who asks for award rates and has a high standard of living. But "it is certain," the Report says, "that the growing animosity against all foreigners is due to the different and inferior types arriving, as well as to the fact that more are entering the sugar industry than can be readily absorbed." The Australian Workers' Union says that it does not object to the aliens on social grounds but simply because of the overcrowding of the labour market. "The objection is a perfectly reasonable one and is supported by many Italians, both foreigners and workers," remarks the Commission. As a result the Commonwealth Government, in 1925, took

II, 6.

[1] See also footnote 1, p. 125.

action to regulate the immigration of Southern Europeans. An Act was passed giving the Government very wide powers of restriction.[1] In August 1927, the Prime Minister described the present position to a Labour deputation.[2] The Italian Government, he pointed out, had a highly organised Emigration Department, and particular care was taken by them that Italians should only come to Australia if there was reasonable prospect of their obtaining ready employment on arrival. Most of the migrants were nominated by Italians in Australia. The Consul-General stated recently that as he did not wish Italians to displace Australians in employment, he had stopped the issue of nomination papers to Italians living in industrial districts in Australia. The entry of migrants from Greece, Jugo-Slavia and Albania has been limited to 100 a month from each country. Russians are only admitted after their applications have been investigated and approved by the Minister for Home and Territories.

13. To sum up the position, it may be said that the prices secured by the grower, miller, refiner, grocer and worker, are fixed periodically by collective bargaining with Government supervision and protection. The price and supply of land [3] and labour are to a considerable extent controlled by Governmentally supervised bodies. The price to the consumer is fixed, and the demand for 60–70 per cent. of the crop is likely to be fairly constant. The Queensland Cane Growers recently elected delegates to look after their interests in the Council of Agriculture.[3]

14. The policy must not be judged by the results it achieves for the sugar industry only, but by its effects upon Australia as a whole. There seems little doubt that the industry itself benefits very much from all that has been done, but the question to be met is, whether the Australian public would have obtained cheaper and better sugar from abroad without losses in other directions? Further, even

[1] See Part III, Chap. IV, par. 24.

[2] *Queensland Industrial Gazette*, 24/9/27. See also *Commonwealth Parliamentary Debates*, June 7, 1928, p. 5454.

[3] See Chapter VI for reference to Queensland Land Laws and Council of Agriculture.

supposing it is desirable in order to develop the country, that the sugar industry should be protected, may not the present policy simply bolster up inefficiency?

15. In reply to the second of these questions it can be pointed out that an important stimulus to efficiency is a system of payment by results, and this is attempted in every branch of the policy. The grower is encouraged to turn out quality rather than quantity, and is paid according to the commercial sugar contents of his cane as determined by chemical analysis. It is not possible to test the improvement in the quality of cane since the policy has been introduced, as sugar content varies from season to season and the number of seasons is not sufficient to strike an average. The system of payment and the fact that perhaps as much as one-third of the crop will have to be sold at world's prices, encourages the farmer to improve quality. To help him do this, experiment stations have been founded by the Government, which through a Bureau of Sugar Experiment Stations introduce and test new varieties of cane, and carry out experiments in disease control, methods of cultivation and manuring. Field days at which demonstrations and addresses are given to farmers, are held periodically at the Stations. Growers living at a greater distance than 25 miles are given reduced fares on the State railways. Funds are obtained by a levy upon growers of $\frac{3}{4}d.$ a ton on all cane crushed and a subsidy from the Queensland Government of a similar amount. Recently three travelling research scholars were sent abroad to study conditions in other sugar-producing countries. The production of cane per acre in Australia is, nevertheless, still below that of Java and Hawaii, though the amount of sugar extracted per ton of cane is higher than elsewhere. The sugar award to workers establishes piece rates wherever possible, and inefficiency through underpayment is prevented. The high labour costs in the industry are not brought about through inefficiency but because of an insistence upon low human costs, or in other words a high standard of living for the worker. It is likely that, in the near future, mainly as the result of

I, 7.

THE FALKINER CANE HARVESTOR

Australian research, a mechanical cane harvester will be put on the market. This, if successful, may revolutionise the sugar industry of the world.

16. The miller, as has been mentioned previously, must be reasonably efficient in order to pay his way. Savings through any extra efficiency of organisation on his part are bound to increase his return, as the price the refiner pays for his standard product is controlled. The following extract from an article by a sugar expert (who is evidently very suspicious of the present policy of control) is of interest :[1] "I had the opportunity of inspecting about half of the Queensland factories in operation, among them some good aggregations of plant attaining high standards of work. Coming direct from Java, where I had spent the whole crushing season, the first feature that struck me on entering a Queensland mill was the small number of hands about the factory, together with the presence everywhere of labour-saving devices. The various operations were carried out promptly and efficiently. This was particularly notable in one of the factories I visited, where only one man and one boy were required in the sugar-bagging station. They open the bales, brand the bags, fill, weigh, sew, load them on trucks, chain them down and couple up the trucks ready for the 'loco.' Here is, by the way, a striking illustration of the efficiency of white labour unfettered by the paralysing policy of ca'canny." . . . "In view of the fact that the mills pay out 66–70 per cent. of their total returns of sugar in payment for cane, it would appear that they must be operated economically and with technical efficiency to carry on with any reasonable degree of success." His broad impression of the industry is "that it has developed in spite of artificial difficulties not met with in other countries, and that it has reached its present magnitude is no small tribute to those engaged in the industry." Unsuitable mills are gradually being eliminated and work is being concentrated in those which are more

I, 7.

[1] Extracts from "Impressions of Queensland Sugar Industry," by Francis Maxwell, D.Sc., M.I.Mech.E., published in the *Australian Sugar Journal*, 1925.

efficient. In 1901, 61 Queensland mills produced about 120,000 tons of raw sugar; in 1926, 37 mills produced nearly 500,000 tons.

17. Refining and distribution are carried out by one of the largest trusts in Australia whose technical efficiency was admitted by a Royal Commission which inquired into the price of sugar in 1911. The fixed price aims at allowing the refining company reasonable profits. Any extra efficiency on their part will increase these profits.

III, 6.

18. The greatest help to efficiency is the stability resulting from the policy of control. Fluctuations in price are for the time being completely removed, as far as about two-thirds of the crop are concerned. Speculation almost entirely disappears, and the main risk depends upon the size of the crop. All bargaining is concentrated into the hands of a qualified few. Co-operation between growers and between employers and employees is encouraged. The fixed price also enables industrial consumers to make their calculations in advance and helps them to increase the efficiency of their production. Those producing for export know that they will receive the best Australian sugar at the world's price. Housewives are protected against a price higher than $4\frac{1}{2}d.$ a lb.

I, 15 & 20.

19. Besides the question of the effect of control upon efficiency in the industry is that of its cost to the Australian public. This cost is impossible to measure accurately. Some indisputable facts, which will contradict certain extreme statements on the subject, can, however, be stated. In the first place the Australian public is vitally affected by the prices obtained for all exports from Australia. From this point of view, the policy scarcely affects them directly, since manufacturers of goods for export containing sugar buy their sugar at the world's price, and their profits are not diminished through control. Secondly, the Australian public are consumers of sugar and as such they normally have to pay $4\frac{1}{2}d.$ per lb. for the best loaf, granulated or castor sugar. It is impossible to say what is the exact price they would

IV.

have to pay in the absence of control, but it is useful to compare the controlled price with that payable in other countries. The Sugar Commission did this in 1919, a time of shortage, and an attempt is made here to do the same thing for 1924, and 1927, a time when the price of raw sugar, owing to increased production, had fallen almost to pre-war level. This slump is leading to restriction schemes in several sugar-producing countries and may result in higher prices to the consumer.[1]

III.

World Retail Prices of Sugar
(From various official statistics)

	1919. *d.*	1924. *d.*	1927. *d.*
U.S.A., including a duty of approximately ½*d.* per lb.	5	4½	3½
Canada, including a duty of approximately 1*d.* per lb.	6¼	5½	4¼
New Zealand (free of duty)	4	4¼–4¾	3¼–3⅞
U.K., including a duty of approximately 1¼*d.* per lb.	7	4¾–7	3¾–5
Australia, including a duty of approximately ⅔*d.* per lb. and an embargo since 1924	3½	4½	4½

In times of scarcity the Australian consumer gets his sugar cheaper through the existence of a home industry. To-day he probably has to pay about 1*d.* per lb. more than if he were able to import from abroad, a sum which is in the nature of indirect taxation, and is used to support the industry.[2] Thirdly, the Australian public is interested in the economic development of Australia. The question which has to be decided, there-

V, 3.

[1] Supporters of the policy call attention to the possible influence upon Australia of an American-German sugar Trust. The American-controlled sources of supply of raw sugar, Cuba, Hawaii, the Philippines and the U.S.A., are becoming increasingly important. In 1913 they provided 34 per cent. of the world's total cane-sugar supply, and in 1925–6, 38 per cent. Further, whereas cane sugar in 1913 only supplied 51 per cent. of the world's demand for sugar, in 1925–6 it supplied 67 per cent. The recent failure of restriction in Cuba will, however, considerably lessen the immediate importance of this argument.

[2] It should be noted that in a country where inequalities of income are not on the whole very marked, extensive indirect taxation may be a good practice. Most Australian workmen are paid roughly according to cost of living.

fore, is whether the existence of the sugar industry is worth a tax of, say, a penny, on every pound of sugar consumed.[1]

20. Though the question cannot be adequately answered here, recent trends in the industry are of interest. The importance of sugar to the settlement of the northerly areas has been mentioned. It seems that after a thorough exploration of the possibilities of utilising the sugar by-products, economic progress will be made in Queensland, which without the industry would have been impossible. In 1925, the Queensland Government invited a member of a large British distilling company to inquire into the prospects of manufacturing power-alcohol from Queensland molasses. The firm's representative stated that he "had come to a very definite opinion on the subject and he could see no reason why Australia should not produce every gallon of liquid fuel which is consumed in the Commonwealth. That could not be done in a year or two but certainly within the lifetime of those present." The important point is, of course, the price at which the fuel could be sold, and this is one of the main questions which is being discussed to-day in the industry. He considered that the crop which would give the best return, taking everything into consideration, would be cassava cane. Molasses could still be used where it would not otherwise be valuable. Production would be entirely subsidiary to the sugar industry and distilleries could be built alongside of the main sugar mills. Cassava seed canes would, at first, have to be imported from Java and farmers would need instruction. The growers inquired further into the problem and made representation to the Commonwealth Government for a bounty. It was stated that costs would be brought lower for sugar if the alcohol industry were started. One boiling only would be necessary and the remainder would go straight to the distilleries. The best juices would make sugar and the poorer, power-alcohol. A great advantage of power-alcohol is that annual supplies of a fixed

II, 27.

[1] Excise and import duties are placed on sugar in several countries of the world, and their proceeds put in the general revenue.

amount can always be obtained.[1] In 1926, the Commonwealth Government provided for a bounty to be given on the production of alcohol from cassava and certain other starch-bearing plants. One-half of the bounty is available for growers. Payments must not exceed £5,000 in any one year and standard wages and conditions of employment must be observed. A large company has been formed recently which hopes to deal with the surplus molasses from mills and also encourage the growth of cassava. A distillery with a capacity of producing a million gallons per annum was started in the Mackay district, during 1927.

A power-alcohol industry, if it succeeds, will help to render settlement easier in Queensland. Another new industry has been founded to make use of the megass, the residual crushed cane which is normally used as fuel at the mills. In America the bagasse, as it is called, is sometimes compressed into flat blocks which can be used as light building material known as "Celotex." The product has become increasingly popular owing to its strength and insulating qualities. An Australian Company has recently been formed in Queensland. The industry, it is claimed, will make Queensland less dependent upon imported softwoods. This will not only benefit Australia as a whole, but will probably help considerably to lessen unsatisfactory housing construction in the tropics. Another possible by-product industry is the manufacture of cellulose for artificial silk.

21. The sugar industry may be said to depend for its existence upon economic control, of which it is the most interesting example to be found anywhere in the Commonwealth. Control has possibly been costing the consumer about 1*d.* a lb., which, at the rate of consumption of 117 lb. per head, amounts to about 10*s.* per annum per consumer. In return for this, it is declared, Australia can maintain in the sugar areas of Queensland about 100,000 persons, who, unlike the inhabitants of other sugar-

V, 12.

[1] It should be realised, however, that even if the whole of the present production of molasses were used for power-alcohol, it would yield only about one-twentieth of the present Australian demand.

producing areas of the world, exert a powerful demand for the products of Australia. The inhabitants of other sugar areas are, it is true, paid for their sugar by goods and services, but their demand for Australian products would not be so strong as that of Australian sugar producers. If Australia had no sugar industry it is unlikely that her production of other things would be noticeably greater than at present, and she would have to import sugar instead of certain other goods which are now imported in return for her exported produce. In addition, there is the possibility that the Australian national income will be increased through the production of motor fuel and housing material within her borders. It seems that these advantages, coupled with the future possibility of a world increase in the price of sugar as a result of attempts at combination among the sugar producers of the world, will more than compensate for the present tax on consumers. Before this can be stated with certainty a more detailed examination is necessary.

CHAPTER III

PARTIAL CONTROL OF MANY INDUSTRIES. PROTECTION BY TARIFFS AND BOUNTIES

1. Australian Tariff Policy. 2. Preference. 3. Reciprocity. 4. Protection and revenue. 5. The importance of by-laws. 6. The Schedules. 7. Textiles. 8. Metals and Machinery. 9. Motor-cars. 10. Miscellaneous. 11. Control of the Tariff. 12. Reports of the Tariff Board. 13–19. The Tariff and the Farmer. 20. Reaction against extreme protection. 21. Bounties. 22. Present control over distribution by means of Tariffs, Bounties and other methods. 23. Control over consumption.

1. In Part II, Chapter V, it was suggested that under certain circumstances tariffs and bounties can serve a good purpose, but that their use is dangerous and probably not desirable on a very extensive scale. Since the foundation of the Commonwealth in 1901, despite the so-called "natural" protection which Australia has enjoyed through her geographical position, each successive Federal Government has supported a Protectionist policy. Apart from the motive of defence which has prompted the assistance given, for example, to the iron and steel industry, the aim of the tariff-makers has frequently been definitely mercantilist in character. The main body of the present Tariff was introduced in 1920 [1] and the statements then made by the Minister for Trade and Customs leave the impression that it must be fundamentally unsound. Such statements as the following: "We cannot afford to pay out this immense sum of money for imported goods," or "this money to-day is being sent out of Australia to furnish employment for people in other lands and develop the

Chap. V.

[1] The Tariff became law immediately its text was published, thus preventing disorganisation of trade, through attempts to land goods before duties were enforced. Amendments were made after debates lasting months had taken place in Parliament. Several important changes in the Tariff were made by the Tariff Acts of 1926 and 1928.

resources of other countries,"[1] have been sufficient to make some orthodox economists treat the whole Tariff with scorn. From the utterances of certain politicians, the main idea behind the Tariff may appear to be that of "keeping money in the country," but this was only one of the advantages claimed by its advocates. The chief aim was that it should "protect industries born during the war," "encourage others that are desirable," and "diversify and extend existing ones."

The Minister pointed to the waste brought about through the export from Australia of certain raw materials and their re-importation in a manufactured form. "Time and again Australia lost golden opportunities during the War, because we had not the foresight and wisdom in the past to set to work and develop our resources in a manner which was quite possible for us." He referred to the war-time shortage of tin plate, iron and steel goods and shipping, which had so hampered Australia. The prices of products of those industries which had developed in Australia had not risen nearly so high as the prices of imported products. The advantages of a tariff as a means of defence were emphasised. A tariff would, it was considered, encourage rural industries through its decentralising effects, and the example of America was quoted. Also a tariff would enable large-scale methods to be used in the early days of an industry's existence.

2. The Tariff[2] has three columns of duties, headed General, British Preferential and Intermediate. The "General" column states the rate of duty payable upon all imports except those to which the British Preferential or Intermediate duties apply. The British Preferential Tariff applies (i) to goods which are wholly produced or wholly manufactured in the United Kingdom.[3] (ii) To goods not contained in (i) provided they contain at least 75 per

[1] *Commonwealth Debates, House of Representatives*, 24/3/20, p. 702.

[2] Published by Federal Government, Melbourne. Obtainable at Autralia House, Strand.

[3] Goods are "wholly manufactured in the United Kingdom," if in the raw materials used, and also in the finished goods, no manufacturing process has been performed outside the U.K. which is being commercially performed in the U.K.

cent. of United Kingdom labour and/or material in their factory or works cost. (iii) To goods of a class not commercially manufactured in Australia provided they contain at least 25 per cent. of United Kingdom labour and/or material in their factory or works cost. The final process of manufacture must take place in the United Kingdom, and the goods be consigned direct to Australia. Preference is given by the Tariff to nearly all the imports from the United Kingdom and the average margin of preference is about 13 per cent.[1] In 1920, the Minister remarked that the Government desired by every means in their power to increase the commercial ties which bound them to "the Old Country." "What we have tried to do, particularly in regard to commodities which we are not producing, is to throw our trade as far as possible into Britain's hands." Preference is clearly a great deal more than "an ornamental superstructure," as one English free-trade economic paper has termed it, for in certain instances Australia definitely puts a duty upon goods which she cannot produce, and which she would otherwise obtain, duty free, from all over the world, and admits British goods free. In 1925–6 over a third of British imports (in value) were of this nature. Many are of considerable economic importance; and while they help, directly, few people in Australia, they are a distinct aid to the British manufacturer. On the other hand, the introduction of the 1921 Tariff meant duties on 117 items which had previously been admitted free and 41 increases in the rates on United Kingdom goods.

3. The 1921 Tariff provided for the arrangement of reciprocal bargaining with other countries. Agreements may be made with Dominions of the British Crown for the entry of certain goods, under the British preferential or the intermediate rates. After negotiations with countries other than

[1] In the 1908–11 Tariff the preferential provisions covered 65 per cent. of the imports from U.K. and the margin of preference was 5 per cent. *ad valorem*. Under the present Tariff this figure is over 90 per cent. and the average margin 12·9 per cent. The preference ranges from 5 to 30 per cent. It has been estimated that in 1925–6, additional duty amounting to £8 million would have been paid on imports from the United Kingdom, if these had been dutiable at the rates imposed on foreign goods.

British Dominions, the Minister may allow the Intermediate duties to be charged upon agreed commodities from those countries. New Zealand in 1922, and Canada in 1925, entered into reciprocity agreements with Australia. From 1926, free entry was allowed to a number of products of Papua and New Guinea.[1]

4. The Tariff was constructed mainly for protective purposes, although it was not possible "to overlook the necessities of the Treasury." Ninety-five new duties were imposed and a number of increases made. A few duties were removed and increased duties were placed upon a certain number of articles such as soap and preserves, or confectionery, because it was thought that local competition was "sufficient to prevent the increases being passed on to the public by an increase in price in the locally made article, and that people who insist on getting imported goods of this class can afford to contribute something to the revenue." It was realised that the price of the imported article would probably be raised by the duty which, in this way, could be used as a luxury tax upon the consumer. Provided the Australian article was cheaper than the imported article plus the duty, prejudice among consumers would be discouraged. The Minister was hopelessly wrong, however, in his estimate of future customs revenue which he prophesied would before long be reduced.[2] The Tariff has certainly not lessened imports generally, though it may have changed their nature.

V, 14.

The total number of items in the Tariff was 420. This has not substantially increased. Duties are *ad valorem* and specific. Against some items are placed both *ad valorem* and specific duties, and whichever yields the greater return is charged in practice. Some duties are deferred "until local manufacture has reasonably developed," that is to say, until in the opinion of the Tariff Board there exists a production of satisfactory quality to fill 30–60 per cent. of

[1] Preference was given to certain imports from South Africa between 1906 and 1926. The ordinary Customs Tariff now applies.

[2] See page 725, Hansard. Since 1919–20 customs revenue in Australia has almost doubled. In 1927–8 it was about £41 million.

the Australian demand.[1] In 1924, 29 per cent. of the value of imports were let in duty free while the average *ad valorem* rate on all dutiable merchandise was 32 per cent. The figures for the 1908–11 Tariff were 43 per cent. and 30 per cent. respectively. In 1925, after the Tariff Board had reported to the Minister, several amendments to the Tariff came into force. About 13 items were readjusted for simplification of administration; on 47 items duties were reduced, while on 52 increases were made. A further revision was made in 1927 in which about 135 items and sub-items were affected. On about one quarter both British and foreign duties were to be increased; on another quarter an increase was to be made on goods of foreign origin only; on 52, increased preferences were given to the United Kingdom.

5. Of particular importance to critics of the Tariff are the regulations which allow the entry of goods under Departmental by-laws. These are a real attempt to render the Tariff more "scientific." Doctrinaire Free Traders, relying upon theory, and past history, declare that any approach towards a scientific tariff is unlikely. An examination by them of the structure of modern tariffs is, however, almost always neglected. "The object in making provision for admission of goods under Departmental By-laws is to enable the Minister to grant admission free, or at a low rate of duty, to certain goods that cannot be produced in the Commonwealth, but which are not free under the ordinary Tariff item."[2] The goods admitted under by-law are generally necessary "for the establishment, development or carrying on of the Australian industry. The most important Tariff by-law item is No. 174, viz., Machines, Machine Tools and Appliances as prescribed by Departmental By-laws. Free, 5 per cent., 10 per cent. The duty on Machines and Machinery not elsewhere included, Tariff item 176 (*e*) is 27½ per cent., 35 per cent., 40 per cent.[3] The bulk of the machinery imported comes under this item. It is obviously incon-

[1] For example, duties which were to have come into operation in July 1927 on cotton yarns and wireless valves and other items were further deferred because the Australian manufacturers were not in a position to meet the requirements of Australian users.

[2] Tariff Board Report, June 1924.

[3] These duties are now 45 per cent., 55 per cent., 60 per cent.

sistent with a protectionist policy to impose the duties on machines which are needed in the development of Australian industry, which cannot be made in the Commonwealth. It is equally obvious that Parliament will find it impossible to specify in the Tariff all such machines which cannot be made in the Commonwealth. Hence the wisdom of Parliament in authorising the Minister to exempt such machines from duty."[1] In 1926, the scope of the by-laws was made wider and their aim clearer. Item 174 remains as before: Machines, Machine Tools and Appliances for use in connection therewith as prescribed by Departmental By-laws. *Ad val.* Free, 5 per cent., 10 per cent. But a new item, 415 (A), has been added as follows: Manufactures imported for use in the development of an Australian industry or of the natural resources of Australia, or for use in Public Hospitals or Public Educational Institutions, or for use by public utilities established under Commonwealth or State law and not conducted for private gain, (1) Being of a class or kind not commercially manufactured in Australia or the United Kingdom, as described by Departmental By-laws. Free, Free, Free. (2) Being of a class or kind not commercially manufactured in Australia and not being admissible under Item 174, 219, 404 or 415 A (1), as prescribed by Departmental By-laws. *Ad val.* Free, 5 per cent., 10 per cent. A further example of interest is in item 105 F. 3. Piece goods, woollen or containing wool, n.e.i. of a class or kind not produced in Australia as prescribed by Departmental By-laws, 15 per cent., 20 per cent., 25 per cent. Normally, duties on wool piece goods are 35 per cent., 45 per cent., and 50 per cent.

In order to be able to judge the claims of applicants for admission of goods under by-law, the Board declares that when visiting different States it "has made a special point of inspecting all the most important manufacturing establishments, and has thereby gained a personal knowledge of the needs and capabilities of the various industries."[2] Applications for exemption from duty must be made before an order is placed abroad; the Board then makes inquiries

[1] Tariff Board Report, June 1924. [2] *Ibid.*

as to whether the goods concerned can be obtained locally. Should they be available the applicant receives a list with the names of the firms supplying them. Before any recommendation for admission is made, he "is required to give an undertaking in writing that in the event of the claim being granted, the machine or appliance concerned will be made available for inspection by engineers with a view to considering whether the future manufacture could not be effected in Australia, either by using the imported machine or model, or, where the machines are patented, by making arrangements with the owners of the patents, or by designing an entirely new type of machine." "A large number of single machines are admitted under By-law, under the above conditions, to serve as models from which local engineers may work. By this means manufacturers are enabled to study the most up-to-date improved machines from other countries." From June 1925–June 1926, 730 applications under by-law items were dealt with by the Board, 416 of which were recommended for approval. The by-laws are of very great importance to British manufacturers, and have helped to widen the market for British goods.

6. It may be as well here to give an account of the actual working of the Tariff and to enumerate some of its functions. Criticism will, in the main, be left to the end of the chapter. The Tariff contains 16 divisions, the most important of which are as follows :—

V.

Classification of Imports according to Divisions of Customs Tariff

		Value of Imports.[1] 1924–5. Million £	1925–6. Million £	1926–7. Million £
Division V.	Textiles and Clothing . .	39	36	39
VI.	Metals and Machinery . .	30	30	34
XIV.	Vehicles	15	15	18
IV.	Agricultural Products and Groceries	11	12	13
VII.	Oils	9	11	12
XVI.	Miscellaneous . . .	8	8	9
	Total Merchandise imported	£147	£151	£164

[1] Value represents the amount upon which duty is payable or would be payable if it were charged *ad valorem*. Value of the goods is taken to

7. In the textiles division [1] an attempt is made, first, to encourage the importation of goods in a stage as little as possible removed from that of piece goods, and, secondly, to discourage the importation of woollen manufactures or other textile manufactures which are likely to compete seriously with the products of the Australian woollen industry. For example, on Item 105 (A) (1) (a), cotton, linen and other piece goods (not elsewhere included) the tariff is Free, 5 per cent., 15 per cent., whereas on cotton and linen piece goods defined for cutting up for the manufacture of hemmed or hemstitched handkerchiefs, serviettes, tablecloths, or window blinds as prescribed by Departmental by-laws, the duties are Free, 10 per cent. and 20 per cent. (105 B). On cotton or linen handkerchiefs and serviettes (120 B) duties range from 20–40 per cent. Certain cotton piece goods " which in pattern, design or appearance resemble woollen piece goods used for the same purpose " are charged duties ranging from 30 per cent. plus 1s. a square yard to 50 per cent. [105 A 1 (b) and (c)]. Woollen piece goods (not elsewhere included) of a kind not produced in Australia are charged 15 per cent., 20 per cent. and 25 per cent. (105 F. 3), while piece goods, woollen or containing wool not elsewhere included (105 F. 2) pay 35 per cent., 45 per cent., 50 per cent. There is thus a marked contrast between the free entry of certain cotton piece goods from Great Britain, and the 35 per cent. duty, which rises to 50 per cent., on certain woollen piece goods imported from foreign countries.

On silk piece goods for apparel, the Tariff, which is partly a luxury tax, ranges from 10 to 50 per cent. (105 A A. 2.). Finally on certain woven and embroidered materials in the piece or otherwise (105 D. 2), the duties are 35 per cent. to 60 per cent. (107).

On wearing-apparel not elsewhere included the rates are 45 per cent., 55 per cent., and 60 per cent. (110 D). The highest duties are in this way placed on those goods which are most ready for final consumption.

be 10 per cent. above their " fair market value " in the principal markets of the country from which the goods were exported. For details, see *Commonwealth Year Book*.

[1] Yarns are included under the Miscellaneous Division.

Again, on furs and other skins not elsewhere included, dressed or prepared for making up, the duty is 15 per cent., 15 per cent., 20 per cent. (112 B), but on fur wearing-apparel or other fur articles, in part or wholly made up, the duties are 40 per cent., 50 per cent., 55 per cent. (112 A).

V, 8. 8. In the Metals and Machinery Division, the foundation of the iron and steel duties is the tariff on pig-iron. Duties are as follows :—

	British. Per ton. £ s. d.	Intermediate. Per ton. £ s. d.	General. Per ton. £ s. d.
136. *Iron and Steel :*			
A. Pig-iron	1 0 0	1 10 0	2 0 0
B. Manufactures less finished than iron and steel bars but more advanced than pig-iron (i.e. ingots, blooms, billets, etc.) . . .	1 12 0	2 12 0	3 5 0
C. Bar, rod other than wire rod [1] in coils, angles, tee .	3 10 0	5 0 0	6 0 0
D. Plate and sheet (plain) [2] .	3 5 0	4 2 6	5 0 0
154. (A and B). Rails . .	2 5 0	to	6 5 0
155. Certain Heavy Constructional Steel :			
A. Not drilled or further manufactured	3 10 0	5 0 0	6 5 0
B. Drilled or further manufactured	As above, plus an *ad val.* duty of 25 per cent., 30 per cent., 35 per cent.		

If it is assumed that prices are raised to the full extent of the duty it will be seen that under the British Preferential Tariff, for example, pig-iron manufacture receives a protection of 20*s.* a ton, the manufacture of ingots, blooms and billets 12*s.*; the manufacture from ingots, of rods, £1 18*s.*, of sheets under $\frac{1}{16}$ in. thick, £1 13*s.*, of constructional steel, £1 18*s.*, and of rails, at least 13*s.* Drilling and other work on constructional steel is protected by a duty of 25 per cent.

[1] Wire rod in coils is charged 44*s.*, 65*s.*, 80*s.* (136C, 2).

[2] If the plate and sheet exceeds $\frac{1}{16}$ inch in thickness the specific duty is less. The heavier plates are not yet manufactured in Australia.

Certain of the heavier iron and steel goods are not yet manufactured in Australia. Unless therefore they are admitted under Departmental by-laws their price will be raised by the Tariff. In 1926–7 over £700,000 was paid in duties on heavy iron and steel goods (not including machinery).

9. In 1923–4, £8 million worth of vehicles were imported, and by 1926–7 this had risen to £17½ million. In a new country transport is even more important than in older countries, and at first sight a duty upon motor vehicles may appear absurd. An examination of the way in which the duties are imposed and, of their effects, may modify this impression considerably. Upon motor chassis, which at present are not manufactured in Australia, there is no duty if they are imported unassembled, without tyres or storage batteries, from Great Britain. The intermediate and general duties are 12½ per cent. and 17½ per cent. (359 D.4.). In 1927 there were over 400,000 motor-cars and trucks in Australia[1] of which the overwhelming majority were of United States or Canadian origin. The Australian motor owner has, therefore, to pay a fairly high duty upon the chassis of his car, even though it may have been imported unassembled, unless he buys a chassis of British origin. In spite of the preference to the British manufacturer, in 1926–7 less than one-fifth of the chassis imported were of British origin. British motor manufacturers have, however, been making an effort recently, to capture part of the Australian market from U.S.A. A special motor section has been formed by the Australian Association of British Manufacturers and market requirements are being more carefully studied. One large British firm has designed a special "Dominions" Model, but it seems that in order to provide a British car at the lowest possible cost on the Australian market, cars must be imported unassembled, and assembly must take place under mass-production methods, inside the Tariff barrier.

V, 7.

[1] In Australia, on the average, about 1 person in 16 owns a motor-vehicle; in Great Britain, 1 in 43; in U.S.A., 1 in 5.

The Australian consumer is therefore at present being taxed to help the British manufacturer.[1] It is considered that assembly of chassis parts can be carried out just as efficiently in Australia as in other countries, and that as the great need of Australia is a larger population, it is far better that manufacture should be encouraged within her borders. For this reason there is on all assembled chassis an extra duty (making the total duty 5 per cent., 20 per cent., and 25 per cent. (359 D.4.). Since the differentiation in favour of assembly within Australian borders has been imposed, assembly works for cars have been erected in five States. Whether these would have been established without tariff protection cannot be stated with certainty, but undoubtedly the duties have acted as a strong encouragement. The effects upon price remain to be seen. Duties upon imported motor bodies are exceptionally high (359 D, 1–3), and range from £30 to £75 or from 40 per cent. to 55 per cent. *ad valorem*, according to the type. Mass production of motor bodies takes place in a number of States. In Adelaide there is a factory which it is hoped will soon have a capacity of turning out 90,000 bodies a year, and another in Geelong with a potential output of 30,000 a year. The majority of cars, it is claimed, are fitted with Australian-made bodies.[2] The Australian motor body is of good quality material and is constructed in efficient factories, while the general appearance of cars in Australia is distinctly good. The main duties affecting motor vehicles have, in this way, helped to found two branches of the industry in Australia by overcoming the inertia of potential consumers and, what are considered by the tariff authorities to be, the anti-social preferences of the consumer. It may be that the methods of inquiry used by the Tariff Board, approximate though they are, have been for the good of Australia. Whether the consumers' preferences are really anti-social can only be seen after prices

[1] The proceeds of the tax go, of course, to the Australian revenue. Part of this contribution to the revenue is used to finance the Commonwealth Main Roads Scheme. See Chap. VIII, par. 7.

[2] In 1926–7 £12·3 million worth of motor-car chassis were imported into Australia, £1·4 million worth of motor bodies were imported.

and costs have been examined in detail. The division of processes in the motor industry has certainly been encouraged, for assembly and body-building have been separated from the manufacture of chassis parts. The protection given during the War built the bridge to mass-production methods.

10. By duties on Agricultural Products and Groceries people are encouraged, through their pockets, to buy Australian produce and at the same time attract capital and labour to Australia. An Englishman, even though he may have lived in Australia a considerable time, will automatically ask for the brand of biscuits, jams, sauces or confectionery, which he used to have in England, and will feel no incentive to buy other makes; but if he finds that Australian produce is considerably cheaper than the imported article he will try it, and if he considers the quality good, will continue to buy it in the future. The English manufacturers, seeing their sales lessening, will feel an impulse to consider the opening of a branch factory in the Commonwealth. The ideal size of factories of this type is not necessarily very large, and there is no reason why production should not be just as economical as in England. Wages in Australia are higher, but with modern organisation this need not be a drawback. Local competition will probably tend to keep prices down, and owing to the less complex economic position of Australia, fluctuations due to world causes will probably not be felt so strongly. The table on the opposite page which gives retail prices of agricultural products and groceries in Australia and Great Britain in October, 1927, may prove of interest.

V, 6.

These figures, though not strictly comparable, show that the effects of the Tariff in raising prices are not very marked except, perhaps, as far as dried fruits are concerned. It should be realised, further, that money wages in Australia are considerably higher than in the United Kingdom.

	Australian Duty.	Melbourne (Spring).	London (Autumn).
Bacon, per lb. .	3*d.*–4*d.*	1/3 (shoulder)	1/5 (streaky)
Eggs, each . .	6*d.*–9*d.* a doz.	1½*d.*	2½*d.*
Flour . . .	Free–2/6 a 100 lb.	4/8 for 25 lb.	5/4 for 25 lb.
Bread, 2 lb.. .	—	5¾*d.*	4¾*d.*
Meat	2*d.*–3*d.* per lb.	(Brisbane. Sydney.)	
Beef, ribs, per lb.		10¼*d.*; (5½*d.* 8*d.*)	10*d.*, chilled or frozen
,, flank ,,		8½*d.*; (4½*d.* 8*d.*)	5¼*d.*
Mutton, leg, ,,		8¼*d.*	11¼*d.*
Butter, per lb. .	3*d.*	1/11½*d.*	1/11½*d.*
Cheese, per lb. .	3*d.*	1/6	1/2
Jam, per lb. .	3*d.*	8*d.*–1/–	9*d.*–1/–
Biscuits (plain) per lb. . .	1½*d.*–2*d.*	1/–-1/3	1/2–1/5
Cocoa, per lb. .	3*d.*–5*d.*	1/10–3/2	1/9–2/–
Dried fruits	3*d.* per lb.		
Currants, per lb.		8½*d.*	8*d.* (Australian)
Raisins ,,		9¾*d.*	6½*d.* (S. African)
Soap, plain, per lb.	30–40 per cent.	5½*d.*	5½*d.*
Laundry blue .	2*d.* per lb.	1/1¾ a doz. squares	11*d.* a doz. bags
Sauces . . .	¼-pint bottles and smaller sizes, 9*d.*–1/3 a doz.		
Tomato and Worcester		10*d.*–11*d.* for smallest bottles	9*d.*–1/2 for ¼-pint bottles

Burning oils, certain kinds of residual oils, and crude petroleum are admitted free (229 A.B.). Refined petroleum for use in motors must pay a duty of 2½*d.*–3*d.* (229 c.). Part of the proceeds of the duties on oils is spent on the development of roads.[1]

The Miscellaneous Division [2] includes certain exemptions from duty on articles belonging to the Commonwealth, not to be used for trade purposes, articles for the official use of Governors, Trade Commissioners and Consuls; collections of antiquities for public institutions, certain re-imported goods, agricultural manures, scientific, medical and surgical apparatus, outside packing, passengers' personal effects,[3] certain works of art, scientific instruments and machines

[1] See Chap. VIII, par. 7.

[2] By-law items 404 and 415A are included in this division.

[3] Item 409 admits free of duty passengers' personal effects; as well as furniture and household goods *which have been in actual use for at least one year*, up to the value of £100. Two children in a family are reckoned as one adult.

for instruction purposes in Universities or Hospitals, theatrical properties, certain prizes and medals, and ships over 500 tons gross register. This division also deals with duties on yarns (392). Cotton yarns are admitted free of duty except under the General Tariff, where the duty is 5 per cent. There is, however, a deferred duty of 20, 30, 35 per cent. on these yarns. On wool and silk yarns of all kinds the duty is 20, 30 and 35 per cent. Artificial silk yarns are admitted free, free 10 per cent. Several kinds of woollen yarns are spun in Australia, but the more complicated varieties have to be imported. The duties may therefore be described as partly luxury taxes. On sewing threads and cotton in reels for household use containing not more than 400 yards, the tariff is free free, and 5 per cent. (393 C). Sewing and embroidery silks and twists are treated similarly. Crochet, embroidery and other cottons and threads are charged 25 per cent., 30 per cent., and 35 per cent. The duties under this item (393 A & D) are also in the nature of a luxury tax. Dumping duties are described in Chapter VIII.

11. The main problem for critics of the Tariff is the study of its cost, for in spite of arguments to the contrary, duties can, in practice, achieve certain desirable ends. They can be used to overcome the obstacles to mobility already mentioned. On the other hand, a tariff is an extremely dangerous weapon, liable to become out of date and therefore still more dangerous. There are some economists in Australia who condemn the whole system because, like Mr. Benham, they are convinced "although almost with regret," that this cost of Protection is bound in the end to over-reach the limits laid down by the most resolute and unremitting censor. Professor Brigden, however, suggests that Australia should "face the details in the same spirit as a business manager who incurs one cost to avoid a larger one, but who lends his energies to the fullest economy and imposes upon that cost a resolute and unremitting censorship."[1]

V, 2–4.

Before 1913, the censorship of the Tariff rested solely in the hands of the Minister for Trade and Customs and the

[1] *Economic Record*, May 1926 and Nov. 1925.

Federal Parliament.[1] From 1913, the Inter-State Commission sat, at intervals, for several years, and published reports on the incidence of the Tariff. In 1921, the Tariff Board was appointed and was the first permanent tribunal to investigate the effect of the Tariff and hear complaints or suggestions. The chairman and four members are appointed by the Governor-General. The necessary qualifications for the members are not stated, and there thus appears little chance of the permanent existence of an economically sound tribunal, until further conditions are laid down.[2] Nevertheless, the formation of an independent Board is a step in the right direction. The Chairman must previously have held an administrative post in the Department of Trade and Customs. The first term of office of the Board lasted for five years. This expired in 1926, and was renewed until 1928. The powers of the Board are purely advisory, but the Minister must refer to them for investigation, any dispute under the Tariff, any proposal concerning new, increased or reduced duties, the deferment of duties or the granting of bounties ; as well as any complaint that a manufacturer is taking undue advantage of the protection afforded him by the Tariff, particularly by (i) charging unnecessarily high prices for his goods ; or (ii) acting in restraint of trade to the detriment of the public ; or (iii) acting in a manner which results in unnecessarily high prices being charged to the consumer for his goods.

Most of the Board's inquiries must be held in public. In practice, few of the general public attend, though the sittings afford an unequalled opportunity for studying, at first hand, important units of economic organisation in Australia.[3] The Minister is not compelled to follow the Board's advice. In the words of the Tariff Board Act, 1921–24,

[1] Members of Parliament besides being politically biassed are too often ignorant in economic matters. The following is an example from recent debates. Member A : " It ought to be well known that the only way that a nation becomes rich is by trade." Member B : " Sending our money to foreign countries." Member A : " Evidently the honourable member knows nothing about trade." Member B : " Of course when I say money, I mean goods."

[2] The Commonwealth Government has recently proposed to hold a detailed scientific inquiry into the effects of the Tariff.

[3] This statement is made from personal experience in 1925. It may be that more popular interest is now being taken in Australian tariff-making.

he may, "if he thinks fit take action according to law in respect of any of the matters dealt with by the Board in its Report." When introducing the Tariff amendments in 1925, the Minister stated that the greater number were based upon the investigations and report of theTariff Board.

Publicity is likely to have a restraining influence upon ignorant or unscrupulous Ministers, for a copy of every report written in connection with an inquiry made by the Board, must be laid on the table of each House of Parliament within seven days of its issue. In addition, the Board must issue, each year, a general report as to the operation of the Tariff and the development of industries, in which must be set out the recommendations made by them during the year, other than those whose inclusion the Minister and the Board agree is not in the public interest. The proceedings at public inquiries are published in the daily press of the States in which the Board is sitting.

The Board may hold sittings anywhere in the Commonwealth and has power to call upon anybody to give evidence under oath or affirmation and produce relevant documents.[1] They may inspect documents or books, retain them for a reasonable period or make copies of certain portions. Penalties for offences such as fraud, perjury, wrongful dismissal of witnesses by employers, and bribery, range up to five years imprisonment. Any witnesses objecting to give evidence in public may do so in private, if the Board is satisfied that their evidence is of a confidential nature and that privacy is not against the public interest.

12. An idea of the work of the Board can be gained from their latest Reports. The Report of 1925–6 opens with an emphasis upon the strenuousness of the Board's task. During the year, 975 reports and recommendations were made to the Minister and public inquiries were held in four of the six States. The most important question dealt with by the Board, affecting primary production, was that of a bounty on cotton. Evidence was taken from the British Australian Cotton Association Ltd., the Queensland

[1] Witnesses need not disclose to the Board secret processes of manufacture.

Department of Agriculture, the Council of Agriculture and cotton growers, and after " careful consideration of all evidence tendered and an exhaustive investigation by a certificated accountant as to costs of production, the Board arrived at the conclusion that payment of a bounty on Seed Cotton was justified under existing conditions, subject to certain qualifications."[1] The Board also made inquiries concerning a bounty on coffee, an amendment of the excise duty on spirit made from pineapple, assistance to the growing of rice and tobacco, the removal of duties on olive oil and Potassium Carbonate for use in the dried fruits industry, and the duties on certain pest-killers. Assistance towards the establishment of a paper pulp industry was recommended.

The next section of the Report mentions the chief manufacturing works visited by the Board and includes about thirty of the important large-scale firms in Australia. The Board remarks: " The result of the last revision of the Tariff is already being reflected in many industries. Orders which before the provision of the increased duties were being placed overseas are now being placed with Australian manufacturers. As instances of this might be mentioned: Cotton Tweeds, Knitted Underwear, Woollen Yarns, certain classes of machinery. In some cases evidence is available to the Board that the increased production which has resulted in this way has enabled the Australian manufacturers to make substantial reductions in the prices of their products." More comparative prices in the Board's Report would enable a better opinion to be formed of the effects of the Tariff. Further, although a large number of skilled workers have been imported from Great Britain, the majority of workers in these industries are Australians, and unless they are producing more cheaply than the overseas firms, and unless the net product from manufacturing is greater than that from other industries, from a purely economic point of view, they would probably be better employed in other forms of production. The Board next reviews some statistics of primary and secondary production and points

[1] See Chap. VI, par. 14.

out that whereas out of every thousand breadwinners in 1901 there were on the average 325 primary producers, by 1921 the number was only 258. Agriculture's proportion per 1,000 had declined from 169 to 146, pastoral pursuits from 68 to 61, and other primary industries, including mining, forestry and fisheries, had declined from 88 to 51. The number employed in primary production had only increased from 533,000 to 599,000, but the Board points out that those " who deplore the fact that our rural population is not growing as fast as our urban population do not take into consideration the fact that with the introduction of agricultural machinery during that period, in the cultivation of the soil, the sowing of the seed and the harvesting of the crops, and in motor traction, the work that can be accomplished by one man has enormously increased."[1] Manufacturing now represents one-third the total value of Australian production, pastoral pursuits one quarter, and agriculture one-fifth.

The Board next refers to its work in Tariff revision. 176 requests for alterations and amendments had been reported upon. In making recommendations they kept in mind " the policy of the Commonwealth as expressed by Parliament, to afford to these industries such assistance, either in the form of increased duties or bounties, as the circumstances may warrant, as will give them sufficient protection against those countries which by reason of lower costs of production are enabled to place their products on Australian markets in competition with Australian products at prices with which the local manufacturers who operate under very much higher standards of wages cannot possibly compete," but before making recommendations for increased assistance, " the Board has satisfied itself as to the efficiency of the local industries concerned, and has also given attention to the question of costs of production in such industries. Where necessary, the Board has caused exhaustive investigation to be made by certificated accountants."

Two most important requirements of a detailed examin-

[1] For figures of Australian productivity, see Chapter IX.

ation into the Australian Tariff would be, first, to inquire into the ability of four business men or civil servants to judge the efficiency of an industry,[1] and, secondly, to compare retail prices of protected articles in a number of manufacturing countries. From such information an estimate of the relative cost of the Tariff could be made.

There follows an account of certain by-laws, Deferred Duties, and Bounties, and a paragraph on United Kingdom Preference. It had been suggested that preferential duties were being granted to certain goods which ought to pay higher duties. The Board stated that they knew that "some British manufacturers are using considerable quantities of foreign raw materials in their products," but they were "not in possession of any evidence that such products are being shipped to Australia under false declarations as to origin."

Under its final, "General" heading the Board suggests the imposition of a "Flexible" tariff similar to that which exists in the United States, which allows the President, with the advice of the Tariff Commission, to alter duties by an amount limited to 50 per cent. of the existing duties.

Finally the Board had to expose a state of affairs showing the risky nature of high tariffs. The new and increased duties on certain imports had been immediately followed by an application to the Federal Arbitration Court, by the workers' unions, for increased wages and better conditions. The Union when giving evidence before the Board had not mentioned their intention to do this. The Board points out, for example, that average wages in the iron and steel industries of the world were as follows :—

Germany	32*s.* 6*d.*	for a week of	54–60	hours.
Belgium	23*s.* 6*d.*	,, ,,	48	hours (nominal).
France	34*s.* 6*d.*	,, ,,	48	,, ,,
United Kingdom	61*s.*	,, ,,	48	,, (enforced).
Australia	108*s.* 6*d.*	,, ,,	44–48	,, ,,

[1] It is often considered that only technical experts can judge efficiency. In certain industries this may be true, but a systematic attempt to discover the industries which are an exception in this rule would be of great interest and importance. A practical economist would probably be the best man to undertake the inquiry, provided that the views of technical experts were sufficiently considered.

These figures made the Board apprehensive, and they prophesied " economic disaster " to the country unless this wages gap, which occurred in several industries, stopped widening. As a result, an interesting new development in Tariff policy was suggested which may lead the way to a sounder method of controlling protection. When making recommendations for increased duties in iron and steel, the Tariff Board was so impressed with the critical position " into which Australian industry was drifting, and indeed has drifted, that a suggestion was advanced that the recommendations for increases in the Tariff which were absolutely essential to the maintenance of the industry should be granted only on condition that assurances were obtained from the various industrial unions connected with the industry, that no further demands would be made for wage increases or any other action taken which would have the result of defeating the effect of any increase in duties recommended." The principal employers had given guarantees not to raise prices, and merchants had " agreed not to make any alteration in their selling prices in the event of the requests being granted." The need for co-operation between the Tariff Board, the Arbitration Court and other organisations for economic control is thus gradually being realised.

The 1927 Report of the Board is arranged in a very similar way to that of the previous year, but a new section has been added dealing with the " abuse of protection " by industrial unions, secondary producers and primary producers. The problems mentioned in the previous report were referred to again and the Board found it necessary " to re-affirm and further emphasise the warning it issued last year, being convinced that the situation had become even more ominous." It seems, therefore, that the Board is discovering the dangers of a loose and incomplete Protectionist policy. From recent public statements made by the Commonwealth Prime Minister it is probable that a detailed scientific inquiry into the effects of the Tariff will be made in the near future.

13. The main criticism levelled against the Tariff is that

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it hits the primary producer by raising the price of the products of secondary industries, upon which he depends for his existence. A most interesting practical attempt was made in 1925 by the Tariff Board to discover the truth of this criticism as far as the price of agricultural implements was concerned. All the mainland States were visited by the Board, an investigation was made by a public accountant into the finances of the principal Australian firms (which are 13 in number) and details concerning costs, turnover and profits were given confidentially to the Board. The representatives of overseas firms refused to disclose similar figures.

The Tariff on agricultural implements consists of items whose function is to protect, and of others under which goods are admitted free from the United Kingdom and at 5 per cent. or 10 per cent. from elsewhere. The former type of duties, which in every case apply to goods similar to those manufactured in Australia, are on the average about 22½ per cent. under the British Tariff, and about 35 per cent. under the General Tariff.[1] Requests had been made to the Board that farmers should be given the opportunity to obtain their machinery as cheaply as possible and that any necessary protection given to the Australian manufacturer should be in the form of a bounty. It was argued that a farmer is unlike other producers for he cannot pass the costs of protection on to the consumer as the prices of his products are ruled by world prices.[2] Further, the restrictive effects of a tariff upon imports tends to reduce the amount of shipping arriving in Australia and hence to raise the freights upon farmers' produce for Europe.[3] The

[1] It was naturally the protected goods which were the subject of inquiry. "Non-protected" items covered in 1923–4 £1·08 million of imports, "protected" only £·6 million.

[2] It should be noticed that in the case of primary products which are not exported on any scale, such as vegetables and certain kinds of fruit, sugar, which is protected under the embargo, and wool, which has a partial monopoly, this is not wholly true.

[3] The annual values of total imports of all kinds into Australia since 1920 are as follows:—

1919–20	£99 million	1923–24	£141 million.
1920–21	£164 (1st year of new tariff)	1924–25	157 ,,
1921–22	103 (Trade depression)	1925–26	152 ,,
1922–23	132	1926–27	165 ,,

great importance of primary production was emphasised, and it was pointed out that the distance of Australia from Europe, which is a natural protection to the manufacturer, is a handicap to farmers who have to export abroad. Duties on farm machinery would discourage land settlement, especially as farming is not so prosperous as is generally believed. In Canada, it was stated, farming implements are obtainable at almost half the cost of Australian implements. It was pointed out that between 1911 and 1921 the number of persons in agricultural and pastoral industries had decreased, while the proportion of the total population living in metropolitan areas had risen from 38 per cent. to 43 per cent.; also the value of manufacturing between 1912–22 increased 95 per cent., whereas that of agricultural produce increased only 55 per cent., pastoral produce 49 per cent., dairying 81 per cent. The farmer when faced with economic difficulties must, it was declared, improve his general efficiency; the manufacturer demands a tariff. Protection, however, encourages inefficiency and, it was estimated, had increased the prices of implements by one third. At the same time the three chief competitors of Australian primary producers, Canada, the United States and Argentina, either allow free entry or charge very low rates.

14. Such were the main arguments against the duties. There is much truth in them, but on the whole, particularly when examined in detail,[1] they appear to be based rigidly upon a somewhat fanatical free-trade doctrine which ignores actual developments. The arguments of the manufacturers and others who were in favour of the duties, insisted upon the fundamental variations of Australian agricultural conditions in different parts of the continent and as compared with other parts of the world. Particular types of machinery are needed and had it not

V, 10 & 11.

[1] A tariff, for example, does not aim at decreasing imports on the whole, but rather of changing their nature, and such statements as the following: "The tariff that hinders the importation of goods makes it almost impossible to finance our exports unless by the importation of gold," is not true unless it is shown that the total quantity of imports is restricted by the tariff.

been for the existence of competition from Australian factories, the overseas manufacturers "would have had no interest in the development of special implements for Australia, and would have preferred to continue selling their standard types of machines and implements."[1] These developments have resulted in the stump-jump ploughs and cultivators which can be used in land which has not been completely cleared, the stripper harvester which cuts, threshes and bags the wheat during one operation, and the header harvester, a machine made for dealing with flattened or tangled crops, which will absorb straw as well as grain into its threshing mechanism and can therefore be used when the crop is standing in irregular formation. The header when fitted with a "crop-lifter" can harvest wheat, which through wind and rain has been laid almost completely flat on the ground. In 1921 and 1925, crops in several districts were damaged by storms, and in spite of the heavy demand for crop-lifters and the extra cost which "rush conditions" caused to the manufacturers, prices were not raised to the farmer. An importer who gave evidence considered that the importance of these factors was very much overrated, but the Board, in summing up the first part of its Report, said unhesitatingly "that the Australian agricultural implement industry has served the best interests of the Australian farmer, and has been of particular value, in subduing vast areas of country, such as the mallee, and bringing them into production."[2]

15. The Board then discussed the question as to whether protection is necessary in the present interests of the industry and how a tariff affects prices to the farmer. They stated that there were directly engaged in the industry 4,674 employees, and about a million pounds was paid to them annually in wages, a certain proportion of which would reach the primary producer. They next emphasised the present relative importance of the home market to Australia, except in the wheat and dried fruits industry which were dependent equally upon the home and export market, and in the wool-growing industry which uses relatively little

[1] Report, p. 10. [2] *Ibid.*, p. 15.

machinery. An examination of Australian statistics will prove the substantial truth of the last statement.

TOTAL PRODUCTION 1921–2 TO 1925–6

	Value. Million £	Exports. Million £	
Agricultural products . . .	444	162	
Wool	303	288	(inc. scoured wool and tops)
Pastoral (excluding wool), Farmyard, and Dairy products	441	118	

These figures do not, however, prove that the potential importance of the overseas market is less than that of the domestic market. It is probable that Australian farmers will have to depend to an increasing extent upon overseas sales.

16. The Board next considered whether a removal of duties would result in a fall in the prices of implements. Comparisons were made with prices in New Zealand and Argentina, both of which allow free entry or charge low duties and have a very small domestic manufacture. Prices in Canada, where the duties are low, and in the United States where entry is free, were not quoted.[1] The New Zealand prices obtained by the Board were supplied by two large importing firms in Australia who would obviously gain from a reduction in the duty, and would not tend to make an over-quotation. Comprehensive figures from Argentina were supplied by the Australian manufacturers as the Board were unable to obtain them from America. The source of these latter figures is obviously unsatisfying, though the Board declared that it had "no reason whatever to doubt their accuracy." In both Canada and the United States wages are high, but owing to their wide home market, prices are comparatively low. It does not, however, follow that if the present duties were removed the retail price in Australia would be lower than the price paid to-day by the Australian consumer. Other factors must be taken into account, particularly the effects of monopoly. If the prices obtained by the Board are correct, it can be

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[1] See par. 13, for a statement concerning Canadian prices made by a witness in favour of lower duties.

safely said that, on the whole, agricultural implements are very little, if at all, dearer in Australia than in New Zealand and Argentina, while a number of important items are distinctly cheaper.[1]

An inquiry as to the discount for cash offered by one of the largest firms importing into both Australia and New Zealand showed that in New Zealand 2½ per cent. was allowed, while in Australia the rate was 5 per cent. Whether the Australian farmer would get such liberal terms at the hands of the importer if there were no Australian manufacture, is open to question.

17. In discussing whether a removal of duties would benefit the farmers, the Board suggested that the first effect would be a reduction in prices. This, they considered, would give the market to the importer. "What would follow can hardly be regarded as problematical, for there is every reason to believe that when once the implement trade passed into the hands of the foreign Trusts the loss of profit incurred in squeezing out the local manufacturer would rapidly be recovered. To be placed at the mercy of any combine or monopoly, whether it be overseas or local, is at the best undesirable, but the danger of exploitation is infinitely greater when the controlling body is beyond the jurisdiction of our laws." Examples of experiences in other industries were quoted by the Board. Professor Mills remarks that the Board offers no evidence of the existence of Trusts, beyond vague references.[2] It should be noted, however, that the chief imported implements are manufactured by two firms only, one in Canada, and one in U.S.A.

V, 9.

18. The real burden of the duties was, it appears, greatly exaggerated by critics, for the Australian manufacturers had not increased their prices to the full extent of the duties. In a number of items the price of the Australian-made

[1] In 1925, before the Board's Report appeared, comparative prices of certain implements in Australia and New Zealand were obtained by the writer, through direct inquiry at the retail agents in both countries, and the main conclusions reached from the figures were similar to those drawn by the Board.

[2] *Economic Record*, May 1926.

implement was lower than that of the imported implement minus the duty.

19. The Board next gave an example of costs on three types of farms. In obtaining information they were considerably helped by the Victoria Closer Settlement Board. They assumed for the sake of illustration that protection had raised the cost of implements by the full amount of the duties, that is to say by one-third. The burden imposed on the farmer would then amount, according to their calculation, to from ⅓*d.* to 1*d.* per bushel of wheat produced. The price received for wheat by farmers in 1925 was about 5*s.* a bushel. The Board considered, however, that the Tariff could not at the very most have increased prices more than 12½ per cent., and the "burden" therefore would vary between ·18 to ·48 of a penny, according to the type of farm chosen. Professor Mills criticises the size of the sample taken by the Board and considers that the fact that the yields per acre chosen are 22, 24 and 10 bushels respectively, while over the ten years 1914–24 the average for the whole of Australia was 11·49 bushels, "is enough to vitiate the whole argument." Without doubt, the Board's figures, like all statistics, must not be taken too seriously, but they do throw some light upon the cost of the Tariff to the primary producer. They are an attempt, inadequate though it may be, to help the case for protection and force their opponents from argument in vague terms, to a study of the actual facts of industry. In practice the Tariff must be judged differently for every industry. For the reasons given and in view of the advantages obtained by the producer through having manufacture close at hand, the Board recommended that the duties should not be disturbed. Many other arguments were, of course, put forward; some were economically sound, some were unsound. The more important only have been mentioned here.[1]

V, 3.

20. The protection of agricultural implements has been described rather fully because it appears to show the aims

[1] The net profits on capital invested, of the eight most prosperous firms in the industry, averaged 12 per cent.

and problems of the Australian Tariff more than any other single set of duties. The development of scientific examination and reasoning, small though it yet is, has come to stay, and commercial opinion in Australia has definitely turned against a policy of extreme and unreasonable protection.[1] There are many duties in the Tariff schedule for which no logical argument can be found, and in spite of the operation of Departmental by-laws, a considerable number of goods are taxed unnecessarily. This appears particularly true in the electrical industry.[2] The great danger of the high tariff on electrical apparatus is that the demand for imported apparatus tends to fall off, and an extension of the demand for domestic production is prevented through its high costs and prices. The Tariff Board is at least a partial safeguard against an increase in the number of undesirable duties, which are mainly due to the structure of the 1921 Tariff. In their 1927 Report, the Board pointed out that in the case of certain items on which increased duties were placed in 1925, imports were still just as great as before. As protection was apparently doing little good in these industries, the Board suggested that the indirect taxation paid by consumers on the imports would be better in the hands of consumers themselves.

It seems, therefore, that the advantages of customs duties having been realised and exploited, their limitations are becoming apparent in certain industries. A scientific compromise will have to be found between the arguments of extreme Protectionists and Free Traders before the Tariff will appear in its right proportions.

21. As has been mentioned, bounties do not necessarily

[1] See par. 12.

[2] Mr. G. A. Julius, of the Institution of Engineers, in his Presidential Address at Hobart in 1926, on the subject of Australian-made goods, remarked : " The tariff designed to encourage the manufacture of electrical apparatus has lamentably failed in its purpose, in that although it has assured to the local manufacturer a high price for his product, it has, at the same time, largely killed the demand for such equipment, or at least has very greatly reduced it. It has largely resulted in the development of a very great number of small and inefficient establishments, with the consequent lowering of individual productivity." In his opinion, duties should be replaced by bounties. In 1926–7 nearly one and a half million pounds was paid in duties on electrical machines and appliances.

offer the consumer any inducement to buy the home produced article, also they must be paid out of current revenue and tend to be uncertain. When, however, industries to be protected are unable to meet a sufficiently large proportion of the home demand, and when, therefore, the imposition of a duty would mean a large proportionate increase in price, a bounty may be advisable.[1] At the present time the Federal Parliament, with the object of encouraging the production of certain kinds of goods, is spending about a million pounds a year on bounties. During 1927–8 payments were made as follows :—

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	£
Bounties :	
Iron and steel products	244,000
Wine export	483,000
Cotton and cotton yarns	106,000
Sulphur	57,000
Shale oil	428
Power-alcohol (estimate 1928–9)	1,000
Canned fruit	569
Export Control :	
Dept. of Markets and Migration	53,000
	£945,000

In addition to giving bounties on production or export, the Commonwealth Government, in co-operation with the various Export Control Boards and the Australian Canning Association, is subsidising a scheme of trade publicity in the United Kingdom on a pound for pound basis. The Commonwealth liability is limited to £50,000. Under the Petroleum Prospecting Act of 1926, £22,500 was granted towards the cost of boring in the Hunter River District, a grant of the same amount was made for boring on the Fitzroy River in Western Australia, £5,000 was spent on geological survey work in Queensland, while £10,000 was spent in other localities where geological evidence indicated the need.[2]

22. Tariffs and bounties have a marked effect upon the

[1] Cf. Report of Tariff Board on Agricultural Implements (p. 29), which points out the reasons for the bounty on galvanised iron fencing, wire and wire netting.

[2] See also Chap. V.

distribution of the National Income. The Australian Tariff IV & V, 14 is used as a means of obtaining revenue under certain circumstances, through duties upon less necessary types of goods.[1] These duties tend to make the incidence of the tariff less unfair, and in practice it will be found that most of the ordinary necessaries of life can be obtained by the poorer members of the population as cheaply as though the tariff did not exist.[2] A Table of food prices is given in par. 10. The Table on the next page contains some Australian prices of clothing and other necessaries in 1925, and similar prices in London during the same year. They refer to goods which are manufactured on a considerable scale in Australia. The articles obtainable in each country at the lowest and highest prices mentioned are not always strictly comparable. The Table, which gives the range of prices in two typical large city stores, has only been included to show that a tariff does not always mean high prices and economic loss. It is unsatisfactory evidence, as the quality of the articles is difficult to judge, but it gives food for thought and emphasises the need for a detailed inquiry into the actual effects of protective customs duties, which are frequently different from those effects which the classical theory of international trade would lead us to expect.

Most women's dress materials are not manufactured in Australia. When imported materials have to pay a duty, their price is raised. The only justification for the tariff, then, is that it is a luxury tax. The duties on such articles are given earlier in this chapter.

The cost of furnishing a house need not be much greater in Australia than in England, but anyone attempting to have furniture and equipment of the normal English type would find his task expensive. Differences in climate make

[1] There is, for example, a duty of 20–35 per cent. on silk yarns (392 D). Upon artificial silk yarns the tariff is free, free 10 per cent. (392 F). Nevertheless, although artificial silk may be termed a "necessity," the duties upon artificial silk piece goods are 20, 20, 25 per cent. [105 D (1)] though manufacture on a large scale does not take place in Australia.

[2] It should be noticed also that as workers are paid approximately in accordance with the cost of living, while general wealth may in certain directions be reduced by the tariff, the individual who works under an award will be able to obtain the ordinary needs of life.

COMPARATIVE RETAIL PRICES, 1925

	Australian Duty. Per cent.	Price in Melbourne.	Price in London.
Outdoor leather shoes	35–45		
Men's		23/6–27/6	15/9–34/9
Women's		14/11–59/6	12/6–59/6
Men's wool socks	35–50	1/11–7/6	1/11–10/6
Women's artificial silk stockings	30–45	2/3–15/11	2/11–5/11
Men's cotton and cambric shirts	40–55	5/11–12/6	4/11–13/3
Men's collars	40–55	11/– a dozen	10/6–12/– a dozen
Men's lounge suits made to measure	40–55	95/—210/–	95/– upwards
Men's overcoats (other than raincoats) ready-made	40–55	45/—315/–	57/6 upwards
Men's soft hats	35–45	15/6–32/6 (Higher prices for particular overseas makes)	12/6–32/6 and upwards
Flannel	30–45	1/11½–11/6	1/11½–6/9
Blankets (all wool)	25–40	27/9–105/–	19/11–118/6
Travelling rugs (wool)	25–40	21/—97/6	21/—105/–

conditions in the two countries very dissimilar in this respect.[1]

Bounties, if they are administered soundly, improve the distribution of wealth, as they involve a transfer of income to certain people, in return for socially desirable services.

Distribution of wealth is also regulated in Australia through direct taxation, based on similar principles to those which have developed in England. The largest taxes are the Federal and State Income Taxes which in 1925–6 were responsible for 18 per cent. of the total Commonwealth Revenue and 13 per cent. of the States' total revenue. The general principles of the Acts are similar to those in Great Britain, though the level of exemption tends to be higher. The taxation of incomes of companies as well as those of individuals appears, however, to be an illogical procedure. In the New South Wales Act, for example, the total net

[1] For example, the common use of sea-grass furniture reduces the expense of furnishing certain rooms. Also verandahs frequently act as bedrooms or sitting-rooms.

receipts of companies are taxable at the flat rate of 2*s.* 6*d.* in the pound.

The Land Tax has been mentioned elsewhere.[1] Probate and Succession duties levied by States accounted in 1925–6 for £2·9 million out of a total revenue of £101 million. Stamp duties brought in £3·9 million. Taxation per head amounted in 1925–6 to about £13. The Commonwealth Entertainments Tax is similar to that in Great Britain, though it is smaller on low-priced tickets and higher on the more expensive. A new development is the provision of revenue for roads by means of a tax upon road-users.[2]

23. The consumption of goods is also regulated to some extent through the Tariff. For example, duties of 1½*d.*–2*d.* a lb. on biscuits, of about a penny a bottle on pickles and sauces, of 6*d.* per lb. upon certain soaps, make the consumer consider whether or not the home-produced article is as useful to him as the imported. If it is as good, he will not lose by the duty, provided the price has not been raised by the home manufacturer.[3] In very many instances, the price of the home article, in spite of protection, is as low as that of the imported article less the duty. The examples in paragraph 10 give some proof of this. There are, nevertheless, several duties which definitely raise the price to the consumer and which can only be justified upon the grounds of the need for Imperial Preference, *e.g.*, the General duties of 15 per cent. on cotton goods [105 A (1)(a)], of 15 per cent. on clock movements (318 A), and of 25 per cent. on cutlery (197 B). These enter free from the United Kingdom. Duties on textiles and clothing do exert a definite influence upon the tastes of consumers, and prevent people with average incomes from buying certain imported goods, particularly those of medium

IV, 8 & 9.

[1] See Chap. VI, pars. 8 and 9.

[2] See Chap. VIII, par. 7.

[3] An interesting point in connection with the control of consumption was brought out at the 1925 inquiry of the Tariff Board into the duties on apparel. The question was raised, as to whether it would be desirable to impose a heavy duty on the import of "shoddy" cloths in order to prevent their use in Australia. Later inquiries, however, showed that some shoddy was being manufactured in Australia, though not in very large quantities. The duty would probably act as a tax on the lower-paid wage-earners, or encourage the manufacture of "shoddy" in Australia.

quality, which can be obtained in practically the same form from Australian manufacturers. Finer classes of goods are taxed as luxuries. The duties also prevent, to a small degree, the effects of changes in fashion overseas, by taxing goods from London and Paris, and therefore giving the Australian manufacturer some time to produce his articles in the new form. Nevertheless, the head of a large Australian department store stated in 1925 that as far as retailers are concerned, "it may be said that the average loss in clearing out fashion goods at the end of a season may range from 6 to 9 per cent. on the total trade of the season even in the best managed houses." [1]

A question to be settled by the Tariff authorities is whether a diminution in the amount of this loss, and increased stability, will compensate for the loss in the variety added to life through changes in fashion. There is no doubt that some diminution is desirable. A growth in Australian manufacture may make it possible for fluctuations in the home demand to be met by Australian factories to a greater extent than at present, and for the more extreme influences of overseas changes to be counteracted through protection. It should, perhaps, be emphasised again, however, that the Tariff is not by any means the most important form of control through which Australia can increase her economic welfare.

[1] Address to Australian Economic Society, Queensland Branch, by J. Allen, May 1925. "Business Problems and Evolution."

CHAPTER IV

PARTIAL CONTROL OF MANY INDUSTRIES. THE PROTECTION AND ENCOURAGEMENT OF LABOUR

1. The extent of control of wages, hours, and conditions. 2. The aim of control. 3. The Queensland Arbitration Court. 4. Present forms of control. 5 and 6. A typical award. 7. The Basic Wage. 8. Need for encouraging "willingness to work." 9. The Basic Wage and change. 10. The standard week. 11. Effects of control on co-operation between employers and employees. 12. Disputes in Australia. 13. Need for co-ordination of effort. 14. Need for a more scientific basic wage. 15. New South Wales experiment in Family Endowment. 16. Position of women workers. 17. Position of farm workers. 18. Some criticisms. 19. Training of young workers. 20. Assistance to Housing. 21. Accident insurance. 22. Unemployment insurance. 23. Federal Commission on Unemployment Insurance. 24. Restrictions against immigrants. 25. The encouragement of immigration. 26. Agreement between States as to policy. 27. Conclusion.

I, 4–16. II, 5–7, 14–16, 24.

1. It has been seen that the means recommended by economists for ensuring the best use of human capital are, briefly, five in number :— The provision of a minimum standard of life to all workers, which should be as high as is economically possible ; control over conditions of labour ; payment according to social economic worth ; the granting of opportunities to all men to show their worth ; collective insurance against the risks of industry. All of these, except the third, have been explored fairly thoroughly in Australia. The view to which the people of the Commonwealth are moving may be summed up in the words of Mr. Justice Higgins, a former President of the Commonwealth Court of Conciliation and Arbitration. "There is," he declares, "no asset of any State so valuable as its human life."

Much has been written of conciliation and arbitration, applied to the settlement of labour disputes in Australia.[1]

[1] For some modern literature on the subject, see bibliography in the Appendix.

The developments of the last five years have, however, been rather neglected. At present, wages, hours, and conditions of labour in most Australian industries are laid down by Arbitration Courts or Wages Boards, with resort, whenever possible, to methods of agreement between employers and employees, under the supervision of the controlling authority. The extent of control and its general effects upon relations between employers and employees is frequently not realised, even by Australians. The Queensland Court of Arbitration, for example, whose functions have been taken over by the Board of Trade and Arbitration, could hear and determine any question arising out of an industrial matter and, in addition to other functions, had "full powers and jurisdiction upon reference by an industrial union or employer or any twenty employees (not being members of an industrial union of employees, and not covered by an award) . . . to regulate the conditions of any calling or callings by an award." Some idea of the control exercised by Federal and State wage-regulating bodies may be gained from the following figures.

In 1927 there were nearly two million persons receiving wages or salaries in Australia. During that year changes in rates of wages are recorded by the Commonwealth Statistician, affecting one and a quarter million work-people. The changes made by award of Court or by agreement under the Commonwealth Act of Conciliation and Arbitration affected 857,000, those made by an award, determination or agreement under State wage regulation Acts affected 380,000. The remainder, affecting only 27,000 work-people, were made by direct negotiation after the intervention or assistance of a third party or by other means.

2. The aim of this form of control over the use of human capital is "to substitute the use of reason for the use of economic force,"[1] that is to say, to discourage employers

[1] Address delivered at Oxford, 1924, by Mr. Justice Higgins. In 1924 the number of organised workers in various countries per 1,000 inhabitants was :

Great Britain	136
Australia	124
Czecho-Slovakia	123
Germany	115

or employees from exerting their monopoly power to the full, and to prevent obstacles such as ignorance, inertia and selfishness from reducing the standard of life and efficiency of workers. The first criticism which naturally arises is that a dictator is likely to hamper rather than help the industry which he is attempting to control. This objection has been discussed in some of the works referred to.[1] It appears sufficient here to point out that in practice, Judges with or without the help of assessors, have managed to settle fairly satisfactorily most technical difficulties arising out of disputes.

3. The industrial tribunals in different States naturally vary, but to illustrate the possible advantages of compulsory arbitration by a Judge, the following short account of the Queensland Arbitration Court by Professor Brigden, of Hobart University, is quoted here from a report in the *Queensland Industrial Gazette*:[2]

"The Court was established in 1916 to provide for the regulation of the conditions of industries by means of industrial conciliation and arbitration, and it was empowered to deal with almost every conceivable subject which could form a matter of dispute between or affect the relationship of employer and employee. No appeal from it was allowable upon any consideration except to the Full Court, and even in this the President might call together only such judges as he himself chose. The President was virtually a dictator, subject only to amendment of the Act by Parliament, or to the possible exemption by the Minister of certain classes of workers from its operations. Whether this extreme power was desirable might well be questioned on general grounds, but although he questioned numerous employers and trade union officials, he found no one who desired either the abolition of the Court or the slightest modification of its powers. It worked smoothly, quickly, impartially, and so far at least, without any sign of an abuse of its powers. It did not, of course, abolish strikes alto-

[1] See Higgins, *A New Province for Law and Order*. McCawley, *Industrial Arbitration*, pp. 11–13.

[2] June 24, 1925.

gether or bring the millennium, but it was extraordinarily efficient."

4. There has recently been a tendency in some States to give judges less absolute power and to put control in the hands of a tribunal. In New South Wales, the powers of the Arbitration Court have been vested in an Industrial Commission consisting of three members, who have the same status as Puisne Judges of the Supreme Court. The Western Australian Parliament passed an Act in 1925 which empowered the Arbitration Court to set up industrial boards to help it in its work. In Queensland, the Arbitration Court was abolished during 1925 and a Board of Trade and Arbitration, consisting of a Supreme Court judge and two lay members, was set up in its place. The Board has powers to investigate any matter relating to industry and to set up a statistical and information bureau. Victoria and Tasmania still retain their Wages Board systems, which are similar to the Trades Boards organisations in the United Kingdom but are more inclusive. South Australia under its Industrial Code of 1920 has an Industrial Court which is helped by a Board of Industry consisting of equal numbers of employers and employees, and industrial boards for particular industries. Throughout Australia to-day emphasis is being laid upon the use of conciliation methods before arbitration. For example, the New South Wales Act provides that the Minister may establish conciliation boards or committees consisting of equal numbers of employers and employed, to inquire into, and within certain limits, have jurisdiction over wage rates and conditions in the industry or group of industries concerned.

5. Extracts from the reports of an Australian Industrial Tribunal will probably help more to give an idea of the practical working of this branch of economic control than a description of the contents of various Acts of Parliament. A fairly recent award of the Commonwealth Arbitration Court has therefore been selected. The importance of this Court can be judged from the fact that, in 1927, unions registered under the Commonwealth Conciliation and Arbitration Act represented 84·5 per cent. of the total

membership of all trade unions in Australia. The power of the Court extends only to those disputes which extend over more than one State.

The first Commonwealth Award for the fruit-growing industry was made in 1912, but there have, since then, been several new awards. In December 1924, owing to the difficulties experienced in marketing export crops of dried fruits, the Court was asked by growers to make alterations in the conditions of employment in the industry.[1] A new Award was granted in February 1925, and was amended in the following April. The Deputy President remarked that he had two difficulties to face. First, he considered that workers should not be penalised because of the critical conditions of the industry. Secondly, he wanted to assist the industry if he could. "If I were looking at this case from the point of view of the growers only, I think I should almost be justified in saying that it cannot afford to pay any wages at all, and the workers must work for very little or nothing." "On the figures submitted to me no fruit-grower can afford to grow fruit for export."[2] Since, however, both sides had asked him to fix the ordinary basic rates of wages, he attempted to keep as close as possible to the principles laid down by the Court in the past.

6. The Award contains twenty-four sections, the first of which reads as follows:—

"(1) The Industry. This Award relates to the industry in or in connection with which the Australian Workers' Union (hereinafter called the claimant organisation) is formed and registered,[3] which industry includes the agricultural industry, the horticultural industry, the viticultural industry and the fruit-growing industry."

Section Two gives a list of minimum wages to be paid to members of the claimant organisation, which vary between £3 11*s.* and £4 4*s.* 6*d.* weekly, according to the cost of living when the Award was made, in the districts to which they

[1] *Commonwealth Arbitration Reports*, Vol. XXI, 1925, pp. 334–435.
[2] *Ibid.*, p. 349.
[3] Preference of employment to unionists is only made compulsory in awards of the Commonwealth Court, when there is evidence that employers are discriminating against members of the union.

applied. Extra wages, varying from 3*s.* to 9*s.*, were to be paid to certain skilled hands and to casual employees. Special proportionate minimum rates were fixed for females and juveniles, ranging from a half to seven-eighths of the basic rates.

Section Three provides for the quarterly adjustment of wages according to changes in "the weighted average purchasing-power-of-money-index-number" published by the Commonwealth Statistician for each group of towns. For example, if the index number varies from 11 to 31 points, wages alter 1*s.*; 32 to 51 points, 2*s.*; 52 to 72 points, 3*s.*; 282 to 301 points, 14*s.* The rest of the Award lays down conditions of work to employees, whether on piece-work or time-work. The limit of ordinary working hours is fixed at 48 per week and not more than $8\frac{3}{4}$ per day; overtime must be paid for, normally, at the rate of time and a half, and Sunday duty at double rates. At least eight public holidays must be granted without deduction of pay. Sections Eight to Twelve deal with the employment of children under fourteen years of age, the payment of wages in cash, the provision of seating accommodation for female workers, the rates of wages for aged and infirm workers and the termination of employment. In Section Thirteen the liability of an employer to compensate an employee where the employer has broken an award unintentionally, is dealt with. The aim of the section is to prevent an employee from "secretly accumulating claims" for breaches of the award and to encourage him to bring a claim within a reasonable time after the breach has occurred. When it is reported that an award is being broken, the union may, on giving notice to the employer, investigate the breach at any reasonable time after working hours. If, during any portion of the day, a worker is engaged on higher grade work than usual, he must for that day be paid at the higher rate. Sections Sixteen and Seventeen lay down regulations as to deductions for housing accommodation, wood and water, provided by employers. The deductions, which normally may not exceed 30*s.* a week, are to be agreed upon by employers and

I, 15.

II., 10.

employees and signed by the claimant organisation or a Board of Reference. A Board of Reference may be appointed by the Industrial Registrar and consists of two representatives of employers, two representatives of employees and an impartial chairman. Their functions are to settle disputes arising under the Award, and deal with any matters assigned to them by the Award. Their decision may be reviewed and altered by the Court. Section Eighteen is of particular interest, since it allows for payments of wages lower than those prescribed in the Award if the union is satisfied that employers in certain districts cannot successfully carry on operations under Award conditions. The agreement must be filed with the Industrial Registrar. The Award was intended to cover working conditions for the following twelve months.

I, 6. 7. Australian minimum wage regulation is based on "the normal needs of an average employee regarded as a human being living in a civilized community."[1] In New South Wales and South Australia the Basic Wage, that is to say the lowest wage which may be paid to any adult worker under any award, is fixed by a specially constituted Court or Board upon which employers and employees have direct representation. The minimum wage decided upon by the ordinary Arbitration Court or Board only applies to a particular industry, but it must not be less than the Basic Wage. In Queensland and Western Australia the wage-regulating authority from time to time declares the Basic Wage, while in Victoria and Tasmania no declaration is made. Under the Federal Court a wage fixed in the "Harvester" Judgment of 1907 is still the foundation of the Basic Wage, and additions or reductions are made which vary with the cost-of-living index number in the various States. On August 1, 1927, the Basic Wages in the capital cities of each State were as shown in the Table on the following page.

The wage for adult females under State awards varies from £1 19*s.* 6*d.* to £2 6*s.* In the Federal Court the practice hitherto has been to award to women workers 50 per cent.

[1] Higgins, *A New Province for Law and Order*, p. 90.

	State Awards. £ s. d.	Commonwealth Award. (In capital cities).[1] £ s. d.
New South Wales	4 4 0	4 9 6
Victoria	—	4 7 0
Queensland	4 5 0	3 18 6
South Australia	4 5 6	4 6 0
Western Australia [2]	4 5 0	4 0 6
Tasmania	—	4 5 6

of the basic wage for adult men. The method of deciding the amount of the Basic Wage, though in many ways beneficial to Australia, is somewhat illogical. Accordingly, in 1925, the Queensland Court of Industrial Arbitration appointed a Commission of three economists [3] to consider the possibilities of more scientific calculations. Its wide functions were to inquire into and report on :—(*a*) The productivity of Queensland from 1913–25 ; (*b*) Real wages compared with productivity during that period ; (*c*) The possibilities of adjusting wages according to productivity ; (*d*) The future level of the Basic Wage. The report of the Commission [4] stated that the chief guide for deciding the desirable level of a Basic Wage should be the capacity of industry to pay, measured by variations in the value of production per head. Cost of living, productive efficiency, unemployment, and the wages level of other States must also, however, be considered. The Basic Wage standard should be departed from in industries experiencing more or less than average prosperity. The degree of prosperity should be determined by one of two methods. The majority of business firms in an industry might supply an independent

[1] Federal awards are only made when an industrial dispute extends over more than one State.

[2] In Western Australia, for example, the wage was made up as follows :

£1 16 0 for food.
£1 0 0 „ rent.
13 6 „ clothing.
15 6 miscellaneous.

It is possible for a worker to obtain the obvious necessaries of life as cheaply in Australia as in Great Britain. Luxuries are, on the whole, distinctly dearer.

[3] The Chairman of the Commission was J. T. Sutcliffe, Supervisor of Labour Statistics of the Commonwealth Government; the two members were the Professors of Economics from Sydney and Hobart Universities (Professor Mills and Professor Brigden).

[4] *Queensland Industrial Gazette*, March 1925 ; also a summary in *Commonwealth Labour Report*, 1925.

accountant with records of their costs and from these an index of average costs could be formed. The second method suggested, which was considered by the Commission to be more important, would be based upon an analysis of income-tax returns. The information would not be complete, "but in absence of evidence to the contrary the income returned each year would show variations in prosperity. These variations, when related to the growth of the industry and compared with the variations of general index, would be useful as evidence of relative prosperity to be rebutted by evidence of prospective change."[1]

8. In discussing methods of remuneration the Report stressed the importance of increasing the will and ability of the workman to produce. The Commission remarked that, "One of the most difficult problems in the organisation of modern industry is to find more successful methods of inducing this 'willingness to work,' which will at the same time avoid the danger of inducing men to work with too great intensity in short periods and so reduce 'capacity to work' over their working life." The advantages of piece-work were mentioned,[2] as well as the disadvantages of "rate-cutting" and "speeding up," which so often have accompanied piece-work in practice. The need for some provision by the community for those thrown out of work through improved methods in industry, was also emphasised as a reason for objections to piece-work by unions. The Commission did not have time to go into the practical details of the question, however, but recommended them to the consideration of the Court. Just before the Commission's Report was issued, the President of the Court[3] died suddenly. The other members of the Court decided, in May 1925, to take no action in connection with the Commission's findings, though the Report is frequently referred to in judgments of the new Board of Trade Arbitration.

I, 7.

9. In refusing an application for a revision of the Basic Wage, made by the Australian Workers' Union and practi-

[1] Section 79, Report. [2] Part 13, Report.
[3] Chief Justice McCawley.

cally all other Industrial Unions registered in the Court,

I, 6. the Queensland Full Bench quoted the following extract from the Commission's Report:[1]

"So far as a standard Basic Wage is to be determined upon an estimate of general capacity, it requires, first of all, an original finding and subsequent variations to correspond with changes in capacity. For an original finding the Commission is unable to suggest any better method at present than that adopted by the Court. The Court has been fortunate in being able to fix a standard of real wages above the general Australian level, because of the lower cost of living in Queensland." The Court decided that there was nothing in the Report to require a change in the method of determining the Basic Wage. They had power to consider the prosperity of any calling for which they made an award. They had exercised it in the past and would continue to do so in the future. The Wage had been based on an index number for food, groceries and house rent of 1549. The cost-of-living index number for the last quarter of 1924 was 1483, showing a fall of about 4 per cent.; that for the first quarter of 1925 was 1496, showing a fall of about $3\frac{1}{2}$ per cent. On these figures the employers representatives asked for a reduction in the Basic Wage, but the

I, 15. Court declared that it "has never slavishly followed the alteration one way or the other in the cost of living, as it is of great importance that there should be stability in the rate of wages, where it can be maintained without marked injustice to either employer or employee." Accordingly no alteration was made. In March 1927, another application for an increase was heard by the Board of Trade and Arbitration. Again no increase was made, and it was pointed out that according to figures published by the Commonwealth Statistician, wages were higher, hours shorter and living cheaper in Queensland than in any other State.[2]

10. On the basis of the theory[3] that "Courts exist to

[1] *Queensland Industrial Gazette*, June 1925. [2] *Ibid.*, April 1927.
[3] A. B. Piddington, K.C., Report on Productivity of Queensland and Remuneration of Labour (Queensland Trades Unions Economic Research Committee).

carry out, not to invent rules of duty for citizens," the Parliaments of Queensland and New South Wales have passed an Act establishing a maximum week of 44 hours in most industries. In New South Wales, for example, the new legislation provided that the ordinary working hours in all industries, other than coal mining and shipping, shall not exceed 8 hours a day, or 44 hours a week (88 hours in 14 consecutive days, 132 hours in 21 consecutive days, 176 hours in 28 consecutive days). Overtime may be permitted, but existing weekly wages may not be reduced " by reason only of any reduction in hours " under the Act, and hourly rates must be increased by an amount sufficient to counteract the loss brought about by the reduction in hours. The effects of these attempts to remove what are considered to be unnecessary discomforts of labour, will be worthy of the closest study.[1] New South Wales also passed an Act in 1926 prohibiting the night baking of bread. All States have Factories and Shops Acts and early-closing regulations, one of the results of which has been to bring about the closing of most shops and public-houses by about 6 o'clock in the evening. New South Wales and Queensland have in addition passed Rural Workers Accommodation Acts which lay down minimum standard conditions for all rural workers.

11. The title, Compulsory Arbitration, is rather misleading, for the aim of Courts and Boards in Australia, to-day, is rather the setting up of minimum standards than the direct prevention of strikes. All strikes are not made illegal. The protection of the Court is, however, withheld from those who strike under certain circumstances. Under some of the Acts, penalties which may consist of fines, or even imprisonment, can be imposed upon employers and employees who break awards. The insistence upon a secret ballot before a strike is entered into, does to some degree prevent the undesirable influence of the more hot-headed members of a Union, but in the words of the late President of the Queens-

[1] The Commonwealth Court and the West Australian State Arbitration Court have recently approved of a reduction of the standard working week to 44 hours in a number of manufacturing industries.

land Court, "just as the absolute prohibition of strikes has been largely ineffective, so has the imposition of conditions. Moreover, numerous breaches of the prohibiting sections have been allowed to pass without any attempt at punishment."[1] The most satisfactory deterrents are, he pointed out, the cancellation of claims in an award granting preference of employment to unionists, the suspension or cancellation of an award or the de-registration of a union. On the whole, awards are observed satisfactorily by employers and employees; control by Boards and Courts will not prevent all friction, though it does help to remove the more important causes of discontent. A strong and discontented body of men can still defy a Court if they are willing to risk the loss of the benefits which the Court is giving them. In 1925, for example, the seamen's union in Australia was de-registered for flouting a Commonwealth award, but nevertheless, after a strike, obtained a part of what it was fighting for. In 1928, the Federal Government attempted through legislation to increase the deterrents to unreasonable transport strikes. As a result, all wharf workers must now be licensed. The permanent effects of the legislation remain to be seen.

12. The degree to which control of labour conditions has brought about greater co-operation between employers and employees cannot be shown by lists of figures, and it is impossible to guess the probable extent of industrial strife in an Australia which did not possess industrial tribunals. The fact that between 1923 and 1927 about 6 million working days were lost through industrial disputes, does not therefore indicate the failure of all the systems of control, particularly when further analysis discloses that most of the time was lost in the mining or transport industries. On the average, approximately two and a half working days were lost per breadwinner during this period. In Great Britain, between 1921 and 1925 the average was six and a half working days lost per person occupied.[2]

I, 12–14.

[1] *Industrial Arbitration*, Chief Justice McCawley.

[2] The period 1922–6 has not been selected, as this would include the General Strike in Great Britain.

In U.S.A., similar figures are not available, but in the returns published the amount of time lost per worker is almost negligible. Working conditions, however, are probably not so satisfactory in U.S.A. as in Australia. The opinion of those affected by the Australian system is some guide to results. To-day, most important bodies of employers and employees, and all important political parties, favour some form of control by means of Courts or Boards. At the end of 1925, the President of the Commonwealth Court,[1] in a statement made before resigning office, declared that the opinions of all political parties were in favour of the Court. "It is very gratifying to me to have lived to see . . . that the value of the work of this Court, and of compulsory arbitration generally, has at last been recognised . . . after many conscientious attempts by extremists on both sides during the last 21 years to do away with the Court. . . . The voice of one who advocates that course in Australia is as 'the voice of one crying in the wilderness.'" The system has stood the test of the War, and the period of depression and discontent which followed. Though very many improvements and adjustments are desirable, its position appears unassailable. It is mainly in preventing disputes over wages and hours that compulsory arbitration is of the greatest use.[2] Two important disadvantages of the system, which could be removed, are the tendency of the parties in Court to exaggerate the facts, and the entry of political influences into industrial affairs. Further, there is still the need for some form of workers' representation in the administration of industry, in order that detailed conditions of work may be agreed upon more easily.[3]

13. The most serious immediate drawback to the system is the general lack of uniformity between awards in

[1] Mr. Justice Powers.

[2] In 1922–7, of the 6 million working days lost, only about a half were due to disputes over wages or hours of work. The remainder are included in the Labour Report, under the headings trade unionism, employment of particular persons, working conditions, sympathetic, other causes. In Great Britain, between 1921 and 1925; about three-fifths of the disputes were over wages alone.

[3] Several of the defects of the system have been pointed out by the Duckham Mission.

different States. The Wages Boards of Victoria and Tasmania are not directly bound by any Basic Wage declaration and their decisions vary between industries. The decisions of the Courts of other States vary. For the settlement of disputes extending beyond the limits of one State, there exists the Federal Court of Conciliation and Arbitration. Accordingly, the differences between the wages and conditions awarded by Federal and State Courts has, in some of the States, led to the creation by Unions of inter-State disputes, in order that the advantages of a Federal award may be obtained. Co-ordination is therefore badly needed. The position could be remedied by an amendment in the Constitution which gives the Federal Government control over industrial matters in the States, through regular conferences of industrial judges or through the formulation of more uniform labour legislation. For the fourth time in the history of the Commonwealth the former of these methods was tried in 1926 and a proposal to extend the Constitutional powers of the Commonwealth in industry and commerce was submitted to a Referendum, but was rejected.[1] Efforts to remove the difficulties are still being made by the Federal Government.[2]

14. Uniformity is not enough to render the position satisfactory. Australian wage regulation, though on the whole a practical advantage, is fundamentally unscientific. The Commonwealth Basic Wage, for example, is supposed to be sufficient for a man, a wife and three children, yet it applies to all workers in the industries concerned, whether married or single. The method suggested by the Basic Wage Commission of 1920 for overcoming the difficulty, has become well known.[3] It was pointed out that the payment to married men of wages higher than those paid to bachelors would obviously lead to a preference in employment for single men. On the other hand, the Commonwealth does not produce sufficient wealth to pay all male employees a wage which would support a family of five at the " Australian standard

[1] 1·25 million votes were in favour, 1·62 million against.
[2] See Conciliation and Arbitration Bill, 1927.
[3] A. B. Piddington, " The Next Step," also *Report of Basic Wage Commission,* 1920 *and* 1921.

of living." It was found, however, that the Commonwealth produces enough to furnish the Australian standard of living to all men, women and children in the ranks of employees. It was therefore suggested that a weekly sum could be paid to mothers for each of their children, through a tax on employers for each of their male employees. It was also suggested that the Court should be empowered to remit payment of the tax, in whole or in part, if an employer, conducting his business efficiently, proved by the production of satisfactory figures that he could not pay both the wage and the tax. Few employers, it was thought, would need the remission of the tax.

Later the Queensland Economic Commission put forward a recommendation embodying "the principle of discrimination in wage payments according to family needs." It was pointed out that the Basic Wage Commission, the Queensland Unemployment Insurance Act, the Commonwealth Public Service and several schemes in operation in Europe had applied this principle. A fund should be formed in Queensland for the payment to parents employed in industry, of a certain sum towards the maintenance of their children. This amount would be "virtually set aside for replacement as a cost of industry." The payment, the Commission remarked, might be made in various ways, but they assumed that it would be made by employers. One possible method was that employers should deduct from all wages whatever sum was necessary to provide the fund. It was suggested that the Court should fix the amount payable. Single men under the scheme might receive less than before, but they would probably benefit later. It was estimated that the provision of a fund of five shillings a week for the endowment of dependent children in Queensland would require a payment of about five shillings a week for every adult employee. In 1925 a Child Endowment Bill was brought before the Queensland Parliament but did not become law.

15. In 1927, the New South Wales Parliament passed a Family Endowment Act, which came into operation in September. The Industrial Commissioner declared a living

wage of £4 5*s*., for a man and wife without children, and £2 6*s*. for adult female workers. The living wage for rural employees was fixed at £4 4*s*. The limit of income under which endowment would be payable was fixed at an amount equal to the sum of the living wage declared, plus £13 a year for each child under fourteen years of age. The amount of endowment to be paid was sufficient to bring the family income up to that figure. The funds for the endowment were to be provided by a tax of 3 per cent. on the wages bill of all employers.[1] Every family, therefore, with, say, five children, had, provided the father was in an employment the conditions of which were regulated by the Commission, a guaranteed income of £5 10*s*. a week. In 1927 there was a change of Government in New South Wales. The new Government considered that the levy on wages was a crude and uneconomic way of raising funds for the scheme. In view, therefore, of the activities of the Federal Government towards formulating a Commonwealth scheme of endowment, the tax upon employers' wages bills was discontinued at the end of the year.

In June 1927, the Federal Government held a Conference in order to consider estimates for a Federal scheme of family endowment acceptable to all States. A Royal Commission has been appointed to inquire into the general question of child endowment with particular reference to its social and economic effects. If the Commission considers a recognition of the principle desirable, it is to draw up a scheme to put it into effect.

16. In future there may be a movement towards establishing a sound basic wage for women, and a scheme to endow persons necessarily dependent upon women workers. A living wage once guaranteed, there will no doubt be an insistence that, as far as is possible without adversely affecting women's interests, "margins" for skill shall be the same for men and women and any amount above the minimum will be "equal pay for equal work."

[1] New South Wales was the first State to introduce a general family endowment scheme to industry. There has, however, been a somewhat similar scheme in operation in the Commonwealth Public Service since 1920.

17. Except in New South Wales, general farm workers are outside these schemes of wage control at the moment. The difficulties of regulation in their case are only just beginning to be attacked seriously. Fruit-pickers, harvesters and cane-cutters come under an award, but the general labourer does not. In 1927 an award was declared for farm hands in New South Wales under which permanent workers received 57*s.* 6*d.* a week and keep, and casual hands 14*s.* 5*d.* a day. A study of the costs of this experiment will be interesting.

18. Such is one form of control over the use of "human capital" which is developing in Australia. With all its faults it is constructive and energetic, and in spite of what many may consider to be the extreme nature of experiments, disasters have been few, and mistakes have been rectified.[1] Employers often grant wages and conditions above those laid down in awards. The Living Wage has been obtained in a rough practical way. Its distribution is becoming more scientific, and eventually the "Australian standard of life" will be attained by all the population. Beyond this is the need for insistence upon some form of payment according to social economic worth. At the moment, Court awards are helping equitable methods of payment to prevail. Though newspapers and labour congresses sometimes declare otherwise, union leaders as a whole do not object to the principle of piece-work. It is the practical difficulties in its operation which arouse distrust. Court guarantees or supervision by works councils in order to prevent the cutting of rates, and to make piece-work really scientific, would overcome much opposition.[2] The employers often declare that men cannot earn more unless they produce more. The workers say that they do not get paid adequately for what they produce. Scientific rate-fixing is the solution. The United States has gone furthest in this direction, but there,

[1] In the New South Wales coal industry it seems probable that in view of high costs of production, the miners and mineowners will find themselves forced into an agreement to make considerable sacrifices in wages and profits.

[2] In New Zealand an Act has been passed recently making illegal in an award, clauses which prevent "Payment by Results." See also the Report of the Queensland Economic Commission.

the foundation of a living wage in industry has not been laid.

Co-ownership and workers' representation in industry have not developed further in Australia than elsewhere. A very recent development is the organisation of an Industrial Conference along the lines of the "Melchett-Turner" Conference in Great Britain. This represents a further attempt to secure co-operation between employers and employed in Australia.

19. Regulation in Australia is not confined to adult workers. Awards also insist upon the payment of adequate wages to young people entering industries. In addition, provision has been made in most States for the instruction of juvenile workers. Apprenticeship laws vary, but in all States the age at which children may be employed is controlled, and other regulations are contained in the Factory or Arbitration Acts. In New South Wales, an attempt has been made "to relate school training and apprenticeship." Technical Continuation Schools and Juvenile Employment Bureaux have been established. Since 1926, when the new industrial legislation was brought in, apprenticeship conditions have been determined by Conciliation Committees. The general content of regulations for each industry is similar. Contracts of apprenticeship must be registered. Their normal period is five years, though shorter periods may be arranged for apprentices entering the industry after reaching the age of 17 years, provided a continuation school is attended. Remuneration and, in some trades, the proportion of apprentices to journeymen is regulated.[1] Queensland has attempted to improve conditions by the formation of Apprenticeship Committees and the extension of technical training. The employment, in the skilled trades, of persons under the age of twenty-one is illegal unless the conditions of the Apprenticeship Act of 1924 are complied with. Attendance at classes is made

[1] In certain cases the State interferes with the conditions of family life in the interests of the children. State wards, after reaching the age of fourteen, may be apprenticed to suitable employers. Wages must be banked until the apprentice comes of age.

compulsory and individual progress reports must be made to employers and the Apprenticeship Committees. A similar Act was brought before the Victorian Legislature in 1926, but was rejected by the Upper House.

II, 6.

20. As one of the largest items in the Basic Wage calculation is rent, State Governments are realising the advantages to be gained through workers owning their own homes. Queensland has introduced some interesting housing legislation recently and her success has led New South Wales [1] to adopt a similar policy. The object of the Workers' Dwellings Dept. of the State Advances Corporation, in Queensland, is to grant loans to enable persons of limited income to erect suitable homes for themselves under the Corporation's supervision. A comparatively small first payment is demanded, terms of repayment are easy, and the rate of interest low. The Workers' Homes Acts 1919–22, were passed for the benefit of persons who cannot afford to pay the required deposit for a Worker's Dwelling. An applicant under the Acts, who must be a worker with not more than £280 a year, need not own any land [2] and is required to deposit one-twentieth of the capital cost of the house. Payment of the balance in monthly instalments, as rent, may be spread over 25 years. Interest on the unpaid balance is charged at 5 per cent. Suitable land will be provided by the Government under the Perpetual Leasehold system,[3] for which the annual rent is 3 per cent. of the capital value of the land. Houses are, as far as possible, erected and designed according to the wishes of the worker, who can obtain advice and copies of plans from the Government. In order to secure that in the event of the death of an applicant, his widow and children will have a house free of debt, his life must be insured with the State Government Insurance Office for an amount equal to that which he owes the Department.

[1] See Queensland State Advances Act 1916, Workers' Homes Acts 1919–22; also Workers' Homes Act in New South Wales. All States have departments which help workers to obtain their own homes.

[2] Ownership of a piece of suitable residential land is necessary before a loan can be obtained from the Workers' Dwellings Branch.

[3] See Chap. VI, par. 13.

The payments, including those for insurance, do not, on the whole, exceed the monthly rent of privately let houses. A house, for example, worth £550 can be obtained under the scheme for a payment of £1 a week for 25 years. Soon after the scheme was inaugurated a man paid 5 per cent. deposit on a house, and died a week later. His dependents at once became owners without any further payments. Only a very small proportion of applicants get behind-hand in their payments.[1]

21. Protection against the risks of accident is provided for the Australian worker in a similar way to that provided under the British Workmen's Compensation Acts. I, 16. In Queensland and South Australia the monopoly for workers' compensation insurance is given to the State and all employers are compelled to insure. This has been done to prevent undue litigation when a worker makes a claim. In Queensland, the number of disputes over claims has now been reduced to a very small figure. Victoria established, in 1914, an accident insurance office for workers' compensation. Employers are compelled to insure for the full amount of their liability to pay compensation, though they need not do so at the State office. It is claimed that the expense ratio of the State office is lower than that of any other insurance organisation in Australasia conducting similar business. In 1926–7 the net premium income was £72,000. The net profit of nearly £15,000 was allocated to reserve. In 1926 an Act was passed in N.S.W. authorising the establishment of a State Insurance Office for Workers' Compensation.

The Federal Commission on Insurance suggested, in 1925, that the proposed National Insurance legislation might arrange for workers' compensation payments to be made from the fund, which they were proposing should be established.[2]

22. The risks of unemployment in Australia were until recently borne mainly by the individual workers affected. I, 16. There were, it is true, Labour Exchanges, Government Relief Works and charitable organisations

[1] In 1925–6, the percentage of arrears (interest and redemption payments) to total indebtedness was ·166. [2] See Chap. VII, par. 5.

in every State, but their effects upon unemployment were not very marked. Even to-day very few of the unions pay unemployment benefit. One interesting method of tackling the problem is to allow, in the amount of wages declared under Court awards, for the estimated loss of a certain amount of time. For example, in the Commonwealth Award for wharf labourers, an allowance was made for a loss of 18 hours a week. In 1922, the Unemployed Workers Insurance Act was passed in Queensland and provided for the formation of an Unemployment Council with the Minister as Chairman, and four members.[1] The Council keeps in close touch with all matters relating to unemployment and has been paying special attention to finding an effective method of dealing with various claims concerning casual and intermittent employment. The Officer in charge reports that the great majority of workers who experience periods of unemployment are anxious to obtain work, and seek it as far as they are able. In a few cases sustenance payments under the Act are deferred because workers are unemployed through their own fault, or because they refuse to accept work when it is offered. The Act provides for an Unemployment Insurance Fund contributed to by workmen, employers and Parliament, and covers about 150,000 workers. The contributions are 6*d.* a week for employers, 6*d.* a week for employees, to be paid as under the British scheme, by means of stamps, and 6*d.* a week by the State. Rates of sustenance payments made to unemployed registered at Labour Exchanges are usually calculated to start after a waiting period of 14 days from registration, and vary in the Southern District from 15*s.* a week for a single worker, male or female, to 25*s.* for a married man, and from £1 to 35*s.* in the Northern District. Allowances of from 4*s.* to 5*s.* a week are made for each child under 16, up to four. The main seasonal occupations are in the pastoral, sugar and meat industries, as well as in wharf-lumping. In the latter industry, waterside workers secure a payment based on the number of days unemployed

[1] These members are the Registrar of Friendly Societies, the Director of Labour, a workers' representative and an employers' representative.

in each week, but no more than 15 weeks' sustenance will be paid during the year. For the year ending June 1926, about £$\frac{1}{4}$ million was received from contributions. After payments had been made and expenses met, there was a slight surplus which made the total accumulated excess of receipts over disbursements amount to £178,000. In 1926–27, which was a drought year in Queensland, disbursements exceeded receipts by almost £100,000. It was stated that the sustenance payments made during this abnormal year amounted to $\frac{3}{4}$ per cent. of the total wages bill of the State.

23. Recently, the continued presence of a considerable amount of unemployment led to an examination of unemployment by the Federal Commission on Insurance. The attitude of this Commission can be summarised under three heads. First, action should be taken not only towards minimising the risks of unemployment but towards the provision of relief from other kinds of distress. It was found in the 1921 census that only 47 per cent. of existing unemployment was due to shortage of work. The remaining 53 per cent. should be dealt with by other methods mentioned in their reports on sickness, old age, invalidity, destitution, and accident.[1]

I, 16.

Secondly, insurance was not enough to overcome shortage of work. "An enormous amount of research work has yet to be done in respect of the many factors affecting industry before the unemployment problem can be effectively grappled with." The Commission therefore recommended that an Unemployment Council should be set up, consisting of representatives of the Government, trade associations and trade unions. The Unemployment Council should establish and supervise a national system of labour bureaux, collect and analyse unemployment statistics and conduct inquiries. It should co-operate with employers, Government Departments and local authorities to provide avenues of employment and regulate demand for labour. The Council should also encourage technical training, and co-operate with Immigration Departments.

A third recommendation, which was only to have effect

[1] See Chap. VII, par. 5.

after the other two had been followed, was the institution of a general system of insurance against unemployment to meet unavoidable risks and give assistance to necessitous cases.[1] The Federal Government will shortly bring a Bill before Parliament, concerning the subject of the Commission's Report.

The Development and Migration Commission has also issued a Report on Unemployment and Business Stability, advocating the collection of data, the standardisation of Labour Exchanges, inquiries into specific industries and the deferring of non-urgent public works until periods of depression.[2] It has suggested the formation of State Industrial Stability Committees to examine the possibilities of controlling industrial fluctuations.

24. Linked up with the problem of unemployment is that of immigration. It is the task of the Development and Migration Commission to unravel this problem. They have already stated that immigration is not a fundamental cause of unemployment and that the right kind of immigrant should increase rather than decrease employment. At present, regulation of immigration takes the following form. Certain persons are prohibited from entering the Commonwealth. They include any person of non-European race who fails to pass the dictation test,[3] anyone who is insane or suffering from certain diseases, or who is undesirable on certain moral grounds. The master, owner, agents and charterers of a vessel from which a prohibited immigrant enters the Commonwealth are jointly and severally liable to a penalty of £100 for each entrant.

II, 5 & 6.

[1] The Commission also made certain recommendations concerning the payment of "destitute allowances." They considered that effective provision could be made by a comprehensive national insurance scheme. (See Third Progress Report.)

[2] The importance of Industrial Hygiene is also being realised in Australia. The Commission on Health in 1925 recommended that the Commonwealth Department of Health should extend its activities and that a physical survey should be made of individuals engaged in various industries in order that Australian standards of health might be established in industry.

[3] This entails the writing of not less than fifty words in a prescribed language. The test is not imposed upon persons of European race. Between 1902 and 1909, 52 immigrants passed the test. Between 1910 and 1918, there were none.

They may be required to provide a return passage for the immigrant and pay for his maintenance until his deportation takes place. Since 1924, persons likely to become a charge upon the public have been prohibited from entering the country, and every alien immigrant must have at least £40 landing money unless his maintenance has been guaranteed by an Australian resident. In 1925, the Act was amended to provide Parliament with powers to prohibit the entry of certain undesirable inhabitants of other countries and also " to prohibit by proclamation either wholly or in excess of specified numerical limits . . . the immigration into the Commonwealth . . . of aliens of any specified nationality, race, class or occupation in any case where it is deemed desirable so to do on account of the economic, industrial or other conditions existing in the Commonwealth," because they " are deemed to be unsuitable for admission," or " because they are deemed unlikely to become readily assimilated or to assume the duties and responsibilities of Australian citizenship within a reasonable time after their entry." These powers are extraordinarily drastic, but used moderately they could obviously be of benefit to Australia.[1]

In 1908–13 and 1921–6, the number of persons admitted into Australia without dictation test was as follows :

	1908–13.	1921–6.
British	610,138	507,880
Germans	15,642	1,322
Italians	7,823	20,978
French	7,948	3,372
Chinese	11,862	10,724 [2]
Scandinavians	6,898	3,227
North Americans	6,138	8,924
Total of all races	696,798	586,055

25. While certain types of persons are discouraged or prevented from entering Australia, suitable settlers are encouraged into the country, through publicity and other more positive methods. During the War little immigration

[1] See Chap. II, par. 12.
[2] Between 1921 and 1926, 13,186 Chinese left Australia.

took place. In 1920, an arrangement was made whereby the Commonwealth became responsible for the recruiting of immigrants abroad, and for their transport to Australia, while the State Governments placed them in employment on their arrival. Considerable financial assistance to immigration has been given in Australia; since 1860 about three-quarters of a million assisted immigrants have entered the country. Between 1922 and 1926 the number was about one hundred and thirty thousand.[1] In 1925, a huge scheme was agreed upon between the British and Commonwealth Governments. Loan moneys to the amount of £34 million are being made available to the various Australian State Governments by the Commonwealth Government, at low rates of interest, for the purpose of opening suitable areas for settlement and for public works which will expand settlement areas or increase the population-bearing capacity of settled ones. For every £$\frac{3}{4}$ million of loan money issued by the Commonwealth and spent by the States, the British Government will pay to Australia £130,000. But it is provided that for each of these payments 10,000 assisted migrants from Great Britain, including 750 families, shall be satisfactorily settled within ten years. The scheme, which is one of the most important recent experiments in economic control within the Empire, anticipates the settlement of 450,000 persons in ten years.[2]

26. It is often said that Australia is acting rather like the dog in the manger. She is not developing her huge territory to the full and yet she tries to prevent anybody else from doing so. This is not true. Although the State Governments, particularly those who claim to represent the workers, are usually suspicious about emigration schemes, and some extremists raise the cry of "Australia for the Australians," the fact that all State Governments have

[1] Assisted immigrants are divided into two classes: those who are "*selected*" by the Commonwealth Government usually for farm or domestic work, and those who are "*nominated*" by residents in Australia who are responsible for them on arrival and guarantee that they shall not become a burden upon the State.

[2] During the two years 1926–7 and 1927–8 the Commonwealth lent about £4 million to the States on account of Development and Migration. The estimated loans for 1928–9 amount to £4·4 million.

approved of a scheme which may add perhaps 9 per cent. to their population in 10 years, will make Australian opinion appear more reasonable than it is often represented to be in Great Britain. Emigration, like piece-work, is likely to give genuine cause for complaint among those adversely affected by its growth. Scientifically arranged it is recognised as being of the greatest benefit to industry. "Only by concerted movement alike within our shores and within the Empire can the desired objective be attained."[1]

27. Fairly extensive control is, therefore, extended over the supply of labour in Australia. The main problem is to ensure that the demand for labour is not reduced through expensive and over-zealous labour legislation or through undue restrictions against immigrants. The most effective safeguard is the intensive development of Australian resources. The efforts referred to elsewhere in this book are examples of what is being done.

[1] *Report of Industrial Transference Board*, 1928.

CHAPTER V

THE SPREAD OF ECONOMIC KNOWLEDGE

1. Governmental information. 2. Commonwealth sources. 3. State sources. 4. Reports of the seven Australian Parliaments. 5. Departmental publicity. 6. The Development and Migration Commission. 7. The Council of Scientific and Industrial Research. 8. Economic Education. 9. Information of Trade Representatives. 10. Commonwealth Association of Simplified Practice. 11. The organisation of Empire information. 12. Economic Societies. 13. Trade Associations.

1. Investment in research and in the provision of economic information is prevented to a large degree by economic friction. There is much scope for collective effort to illuminate more clearly the obscure parts of the economic machine. It is only with the aid of more knowledge that they can be seen in their true proportions. A large portion of the economic information available in Australia is produced by the Commonwealth Bureau of Census and Statistics, at Melbourne, and the State Statisticians. The Dominions, on the whole, inquire far more frequently into their own economic position than does the Mother Country, and the amount of knowledge of Australian industrial conditions which can be obtained from the publications of the various departments, is remarkable. The method of presentation of facts and their selection can be criticised from certain points of view,[1] but improvements are constantly made and the information published over a series of years provides a sound basis for a modern economic history of Australia.

2. The Commonwealth Bureau of Statistics was founded in 1906 and a conference was held with State statisticians to discuss a policy of mutual co-operation. In 1923,

[1] For example, a student of economic control will have difficulty in discovering from the Year Book, the extent of Australian experiments.

arrangements were made for the transfer of State bureaux to the Commonwealth as soon as the State Governments might wish it.[1] In 1924 steps were taken by Australia and New Zealand to increase the efficiency and uniformity of their statistics, and avoid unnecessary duplication.

The main Federal economic publications are six in number.

The *Annual Production Bulletin* of the Bureau of Statistics contains particulars of land settlement, the area under crops, the yield of the main crops, the number of persons employed, the value of machinery used in agriculture, and the proportion of production exported from the Commonwealth. Sections are devoted to the agricultural, pastoral, farmyard and dairy industries, mining, forestry and fisheries. There are also about sixty Tables with details of secondary production which include the number of factories in each industry, the number of hands employed, the average time worked per employee, the value added by employees and the amount of power and raw material used. The *Bulletin* contains altogether over two hundred Tables.

The *Annual Labour Report*, compiled by the Supervisor of Labour Statistics, is divided into sections on Prices, Wages, Employment and Associations. Under the first section are included index numbers of wholesale and retail prices and a comparison of prices in 200 towns within the Commonwealth. Comparisons are also made with prices abroad. In the Wages section are summarised the operations of the various wage-regulating bodies in Australia, the changes in wage rates during the year, the methods by which they were effected, the current rates of wages, hours of labour, and an estimate of effective wages and productivity. Under the heading "Employment" appear some details of industrial disputes during the year and an analysis of their causes, results and methods of settlement. An account is also given of fluctuations in employment, assisted immigration, and industrial accidents. The final section gives statistics of trade unions, employers' associations and co-operative societies, and makes some inter-

[1] So far only the Tasmanian Bureau has been transferred.

national comparisons. An appendix gives detailed wholesale and retail prices, wages in particular trades, as well as a comparison of wages and hours in Australia, New Zealand and Canada.

The *Annual Statement of Overseas Trade* has figures of (i) imports into Australia, the countries from which they come and the amount of duty collected upon them; (ii) exports from Australia and their destination. Figures of previous years' trade enable comparisons to be made. A detailed statement is also given of trade at each Australian port and of Australian trade with the more important countries of the world during the previous five years.

The *Transport and Communication Bulletin* contains statistics of the working of the Government and private railways, of tramways, shipping, and postal and telegraphic communication and aviation. They also include figures of motor vehicles registered and street accidents.

The *Financial Statistics* are divided into Commonwealth, State, Local Government and Private Finance. They include figures relating to the Public Debt, Government Revenue and Expenditure, as well as statistics of Banking, Insurance and Friendly Societies.

The *Official Year Book of the Commonwealth* [1] summarises all the information obtained by the Bureau, and adds general comparative statements, maps, graphs and articles upon economic or other subjects. Since the first issue in 1907, there have appeared articles on Industrial and Agricultural Resources and Research; Mining; Commercial, Industrial and Social Legislation; Immigration; Rural Credit; Banking; Co-operation; and Marketing of Farm Products.[2]

3. The State publications contain similar information in greater detail as far as their own territory is concerned. New South Wales and Victoria are the only States who publish a large official Year Book of their own. In order to

[1] A summary of Australian statistics is published quarterly. A Census of population was taken in 1905 and 1921.

[2] See Index to special Articles in current Year Book.

circulate the main facts of Australian economic life the Commonwealth and all States issue pocket summaries of information with such titles as the *Statesman's Pocket Year Book*, or the *A B C of Statistics*.

4. Much material for research of all kinds [1] is contained in recent Parliamentary papers of the Commonwealth, and with the growth of economic control, this has become a more important, though frequently neglected source of supply. Perhaps one reason for this neglect is the lack of salesmanship on the part of Government stationers.

5. The reports of such bodies as the Tariff Board, the State Departments of Agriculture and of Lands, and the Queensland Council of Agriculture, describe various aspects of the economic machine. The Tariff Board reports each year upon the assistance it considers necessary for primary and secondary industries, and from time to time special reports are made on some of the larger industries which have come to their notice.

The Director of the Queensland Council of Agriculture gives an account of the workings of the Queensland Producers Association with its structure of local councils and commodity boards. Events during the year in each of the main primary industries are summarised and charts of price movements and production are sometimes included. The Report gives an excellent idea of the activities, problems and policy of the organised Queensland farmers.

Most States publish a Journal of Agriculture which, although devoted mainly to technical problems confronting farmers, often contains matters of interest to students of economics.

The reports of the various State Auditors give information upon the costs and advantages of State experiments. Annual reports of industries run by the State provide much useful material. The State Industrial Tribunals issue reports which are invaluable to students of industrial organisation and social science.

6. The reports of the new Development and Migration

[1] For example, the geographer, the engineer, or the business man, will find there first-hand knowledge unobtainable elsewhere.

I, 1 & 2

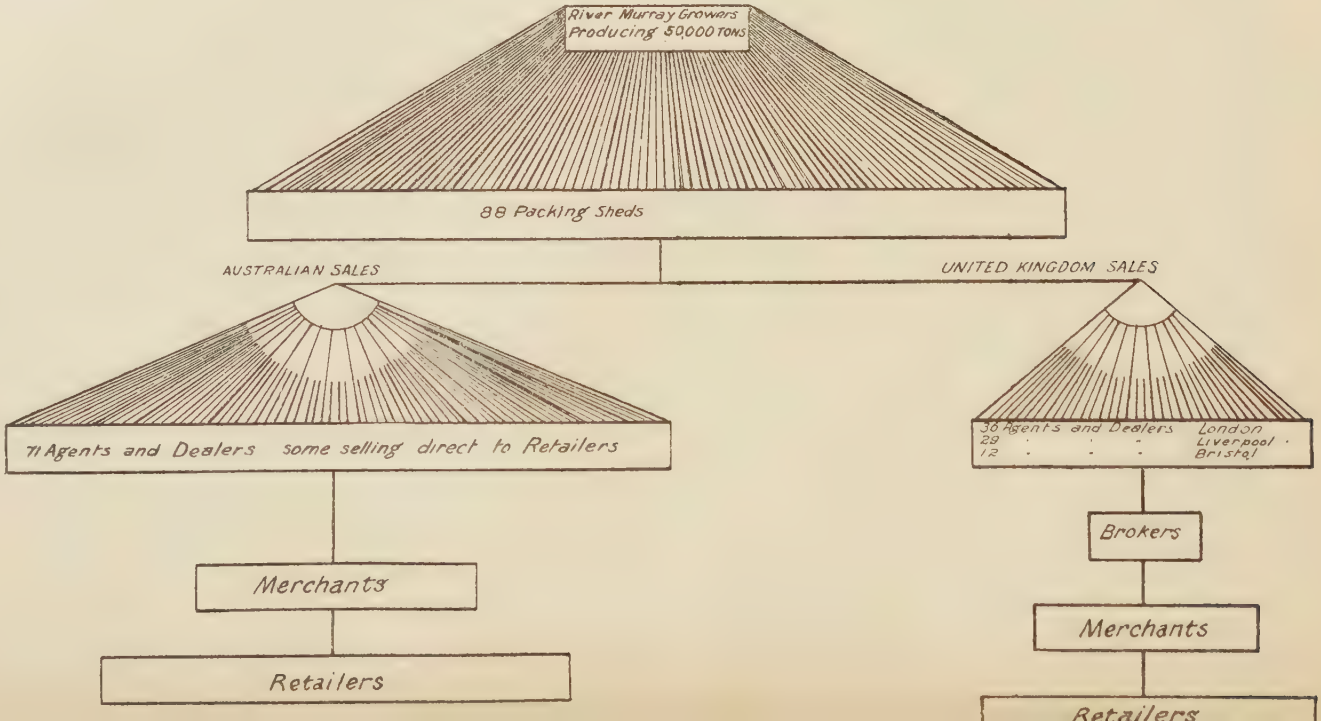
Commission set up in 1926 to prepare the way for the working of the immigration agreement with Great Britain, are likely to become one of the most important sources of economic information. The functions of this Commission are, broadly, to investigate matters relating to the development of Australia with the object of making provision for the settlement of immigrants. The Commission consists of four members selected for their business, scientific or other knowledge. Their powers are extremely wide, and to some extent overlap with those of other bodies.[1] They include "the consideration of matters in relation to the development of resources; the investigation of the conditions and development of existing industries whether primary or secondary, and of the possibility of establishing new ones; the conduct of negotiations for the establishment of new industries and the exercise of certain prescribed powers of supervision and organisation over schemes of migration. Control by the Government of the migration work of the Commission is mainly financial. But the bringing of people to Australia is, the Prime Minister declares, a relatively unimportant part of these proposals, for they go much further than that. "They open up the whole question of how we may best realise our ideals of population and develop this great country and at the same time maintain the standard of living that our people enjoy."[2]

In its first report the Commission emphasises the need for a study of economics in Australia and for the application of its principles to industrial practice. "It is the hope and intention of the Commission gradually to accumulate information with regard to economic facts and units of value so as to enable it to act as economic advisers to the Commonwealth and States on broad policies of development."

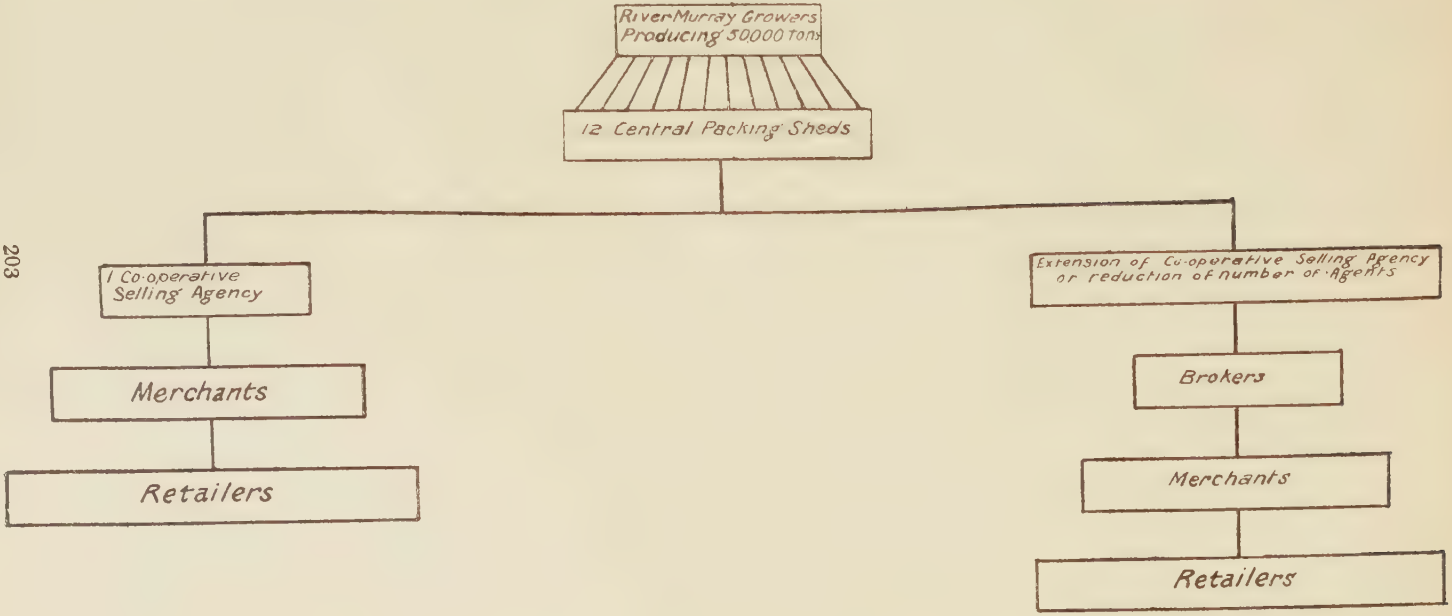
[1] Particularly with the powers contained in Sec. 15 of the Tariff Board Act, and with those of the Council of Scientific and Industrial Research.

[2] Speech at Second Reading of Bill. An opposing view is that of a member who was "not favourable to the Government spoon-feeding migrants to any great extent. Our pioneer settlers were able to get on without it and so should the new settlers who come here." P. 3745, Hansard.

PRESENT ORGANISATION FOR PROCESSING AND SELLING AUSTRALIAN DRIED FRUITS



ORGANISATION SUGGESTED BY THE DEVELOPMENT AND MIGRATION COMMISSION



During their first year of office the Commission, in addition to investigating and recommending for approval, twelve development schemes submitted by State Governments under the £34 million Agreement, discussed and made recommendations concerning such questions as : the present organisation of migration, rural housing, and rural credit, the foundation of new industries in Australia, scientific and industrial research in Great Britain, the Australian market for British cars, and mechanical transport. The Commission has been engaged upon reports on the economic resources of Tasmania, on the Australian gold-mining, dried fruits, canned fruits, fishing, tobacco and paper pulp industries, and upon unemployment and business stability. In its inquiries, the Commission co-operates with the Council for Scientific and Industrial Research, with other scientific organisations, and with the best experts available either in Australia or overseas. The Federal Government in 1927 also appointed a Northern Australian Commission which was required to prepare and submit to the Commonwealth Government a scheme for the development of the Northern Territory.

Other sources of information on Australian economic problems are given in the bibliography in the Appendix.

7. Between 1920 and 1926, there existed a Commonwealth Institute of Science and Industry, for the purpose of helping scientific research in connection with primary or secondary industries in Australia. A considerable number of pamphlets were published on the technique of industry. The Science and Industry Research Act of 1926 reorganised the Institute under the title of the Council for Scientific and Industrial Research. The Council consists of three members nominated by the Commonwealth Government, the Chairman of each State Committee constituted under the Act, and members co-opted because of their scientific knowledge. £250,000 has been paid to the credit of the Council which, between meetings, works through an Executive Committee. Its functions are the encouragement, initiation and carrying out of scientific research, particularly in connection with primary or secondary

industries in the Commonwealth.[1] It is intended that there should be co-operation between State Governments, Empire Universities, the British Department of Scientific and Industrial Research, the British Ministry of Agriculture, and institutions carrying out research in all parts of the world. The initial activities are being concentrated upon animal and plant pests and disease, fuel research (especially liquid fuel), the use of forest products and the preservation of food-stuffs (particularly in cold storage).[2] The Council publishes a journal. An Act was also passed in the same year establishing a fund of £100,000, the income from which is to be used to assist those engaged in scientific research or to provide training in research methods. Provision has been made for gifts and bequests to the funds. The formation of the Development Commission and the Council may be said to represent the first practical move towards the establishment of an Economic General Staff, such as has been suggested by Sir William Beveridge.

8. Universities, which obtain about half their revenue from Government grants, undertake research and teaching in economic science,[3] and commerce. The Workers' Educational Association, founded in 1913 and helped by Government grants, has spread a knowledge of Industrial History, Economics, Political Science and Sociology[4] among office, industrial and other workers. There were, in 1926, about 5,000

[1] These include the training of research workers and the establishment of industrial research studentships and fellowships, the making of grants in aid of pure scientific research, the establishment of industrial research associations in any industry, the testing and standardisation of scientific apparatus and instruments, the establishment of a bureau of information.

[2] South Australia has an Advisory Council of Science and Industry which advises the Government on questions affecting the Agricultural, Pastoral and Mineral Industries, Manufactures, Trade, Commerce and Transport. Seven reports containing a summary of work done were issued between 1919 and 1925.

[3] Professor Copland wrote in November 1925: "In Australia and New Zealand the study of economics has reached high academic status very slowly; economic research has been equally slow in its development. Of the ten universities and colleges, only six have independent Chairs of Economics or Commerce. Only one of these Chairs was in existence before the War. . . . But whatever be the reason for this attitude in the past, there are now signs of a change of front and an increasing readiness to recognise the pressing need of a greater knowledge and a more scientific treatment of our economic problems."

[4] These are the most popular subjects taught by the Association.

students of the Association, and nine books on economic and sociological subjects have so far been published through the medium of the Federal Council of the Movement. In Queensland, correspondence courses are given to enable workers in the back blocks to study in their spare time.

9. General trade information concerning Australia can be obtained from the offices of the High Commissioner and Agents-General in London and from the Commonwealth Trade Representatives in Paris and New York. The British Trade Commissioner in Australia publishes an annual report upon Australian economic conditions, for the benefit of business men in the United Kingdom. In 1926, the Federal Government decided to send a delegation of four employers and four employees to investigate economic conditions in the United States. The Prime Minister declared that his Government "stands by and is definitely committed to the principle of the minimum wage and the idea of safeguarding the working conditions of the ordinary worker . . . but we believe this principle is perfectly compatible with a great increase in production, wages, and in the standard of living, and we want the representatives of both sides to go to America and see for themselves whether our contention is true." . . . He added, "It scarcely matters by whom a good thing is done, provided it is done, and since no one else in Australia has taken the step in question the Government proposes to take the responsibility on its own shoulders."[1] Their report appeared in 1927 and contains useful comparisons between the two countries.

10. The importance of simplified production and standardisation is now being realised in Australia. In 1918, the Commonwealth Institute of Science and Industry, in order to encourage standardisation, called a meeting of engineers and producers. A Standards Association was founded in 1922.[2] Its membership consisted of

I, 18 & 19.

[1] Federal House of Representatives. Debates 28/7/26. The Mission returned to Australia in 1927. Members were unanimously agreed as to the need in Australia of scientific management, and increased efficiency; there were differences in opinion as to the methods which should be used.

[2] Hansard, 4/8/26, pp. 4836–8.

three representatives of the Commonwealth Government, one from each State Government, six from the Australasian Institute of Engineers, three from the Australasian Institute of Mining and Metallurgy, three from the chemical industry, as well as representatives of the Associated Chambers of Commerce, and Chambers of Manufacturers of Australia. The objects of the Association were to prepare and promote the general adoption of engineering standards and to co-ordinate the efforts made by producers and users to improve engineering materials, processes and methods. There were, in 1926, 9 sectional committees, 77 sub-committees and panel committees. Standards suggested by the Association have, it is claimed, been largely adopted by producers. In 1926, an international standards conference was held in New York and definite proposals were made for the creation of an International Standards Organisation. The Australian Association tentatively decided in favour of affiliation.[1] In order that its work might be extended, the Association was reorganised in 1927, under the title of the Commonwealth Association of Simplified Practice. The Association is not a Government body, but it is anticipated that in addition to the financial assistance which it at present receives from the Commonwealth Government, funds will be obtained from State Governments, as well as from public and private businesses and individual members.

11. The publication of economic facts, and research into economic problems affecting Australia, are also carried out by Imperial organisations. Their activities may be mentioned briefly here. The three bodies most representative of the Empire are the Imperial Economic Committee, the Empire Marketing Board, and the Imperial Shipping Committee.

The Imperial Economic Committee has been engaged upon the production of reports and surveys in connection with the marketing of Fruit, Meat, Dairy Produce, Fish, Poultry, Honey, Tobacco, Timber, and Agricultural Machinery, and was largely responsible for the formation of the Empire Marketing Board in 1926. The Board's duty

[1] Standards Year Book, U.S.A., 1927.

is to further the marketing of Empire products in Great Britain, for which it has an annual income of a million pounds. This sum is being used to make grants for research into production and marketing, to supply economic information of various kinds, to provide funds for a mission to Australia which is discussing trade questions with the Australian Government, to assist the growth of co-operation among primary producers, and to conduct a publicity and educational campaign. It is also being used to finance a geophysical survey of Australia and to establish a tropical research station in Northern Australia. In conjunction with the Commonwealth Government, the Board is contributing to the cost of a Department of Economic Entomology under a scheme prepared by the Council of Scientific and Industrial Research.

The Imperial Shipping Committee deals with complaints concerning freights and shipping generally. It is also charged with the duty of surveying shipping facilities and making recommendations for their co-ordination and improvement. Several reports of the Committee are available at the Stationery Office.

The Imperial Institute attempts to promote the industrial utilisation of the raw materials of the Empire, by the supply of information concerning their sources of production and marketing, and by research into their use. Its publication includes a quarterly bulletin, a series of handbooks on tropical commercial resources, reports and monographs on particular plants or minerals, and on comparative mining laws.

The Empire Cotton Growing Corporation, chartered in 1921, obtains an income from the British Government and from the proceeds of a compulsory levy upon all raw cotton purchased by British cotton-spinners. The money is spent on discovering new cotton-growing areas within the Empire, and in co-operating with the Governments concerned in their development. A review of their work and problems is published quarterly. The Queensland industry has received considerable help from the Corporation.

Finally, the Imperial College of Tropical Agriculture at

Trinidad is carrying out researches which are likely to be of importance to Australia in the future.

12. Research and the spread of knowledge is also carried out by non-governmental associations. A recent development is the foundation of Economic Societies in every State of the Commonwealth, with a membership consisting of business men, economists and Public Servants. At a meeting of the Economic Section of the Australasian Association for the Advancement of Science in 1924,[1] a scheme was brought forward for the establishment of an Economic Society of Australia and New Zealand. By July 1925, there were branches of the Society in nine capital cities. The objects of the Society are to encourage the study of economics, to establish co-operative action for the investigation of local and general economic problems, to prepare digests of information upon current developments, and to publish a journal.[2] There are at present ten branches and over eight hundred members.

Attempts are being made to develop business forecasting and economic research in Australia. The Alexander Hamilton Institute of Sydney already publishes a monthly review of Australian business conditions. The Development and Migration Commission has recently recommended that the Commonwealth Government should establish facilities for continuous research into business conditions and into the causes of business cycles.

13. Information is collected and spread among selected groups of persons by Chambers of Commerce and Trade Associations, throughout the Commonwealth. These bodies frequently give evidence before the Tariff Board and Royal Commissions. An interesting example is the Australian

[1] This Association, founded in 1887, holds meetings biennially and aims at greater co-operation between scientific workers and between professional scientists and the general public. Its funds are small but are supplemented by assistance from State Governments. There are, in addition, Royal Societies in each of the States and a Linnean Society in New South Wales.

[2] The *Economic Record*, published in May and November of each year, contains articles on the main current economic problems of Australia; as well as book reviews and a digest of State and Federal economic legislation. The Editorial Board consists of three University professors, a prominent financier and the Government Statistician of New Zealand. A Marketing Supplement was published in February, 1928.

Association of British Manufacturers and their Representatives, which was established in 1910 for the purpose of protecting and promoting British trade interests in Australia. The Association can be of great use through co-operation with the Tariff Board. It can ensure that British manufacturers take advantage of the benefits given them under the Tariff, and it is able to lessen considerably, undue harshness caused through the operation of the protectionist policy. Trade exhibitions, the publication of a journal, and other publicity work by the Association, all help to prevent the value of British products from being underestimated by Australians, in spite of their natural desire to be less dependent upon the older countries of the world.

Non-governmental bodies also carry out research and publicity on an Imperial scale. For example, the Royal Colonial Institute,[1] whose aim is to render permanent the union of Great Britain with the various parts of the Empire, carries out literary, commercial and statistical inquiries. Two Committees have been formed concerned with Imperial Studies, and Empire Trade and Industry. The Institute has a large library of Empire literature.

The British Empire Producers Association has extremely wide objects, and is concerned with making the Empire self-supporting in all essential commodities, in developing and maintaining effective control of the resources and raw materials of the Empire and in bringing about stability in industry and better conditions of life. Australia is well represented on the organisation. A journal is published monthly.

The *Empire Mail*, published by the Imperial Trade Propaganda Association, describes developments in Empire production, and calls attention to possibilities of trade within the Empire. It works "for the Empire's organisation into a single economic unit."

Finally, it may be said that in Australia, as in the United States, business secrecy and undue reserve do not hamper the spread of information to the same extent as in older

[1] The Institute has recently changed its name to that of The Royal Empire Society.

countries. Further, the scope for rapid development or decline is so marked that the ordinary newspapers contain distinctly more news of an economic nature than will be found in similar papers in Great Britain. The problem of improving the methods of presentation of information so as to make it more attractive and easier to use, presents much difficulty and has as yet been tackled inadequately both in Australia and elsewhere. Co-ordination between research units is, however, developing.

CHAPTER VI

PARTIAL CONTROL OF A GROUP OF INDUSTRIES. PRIMARY PRODUCTION

1. Early national control of land. 2. Its growth. 3. The present position. 4. CONTROL OF IGNORANCE by inquiry, research and publicity. 5. CONTROL OF INERTIA by publicity, subsidies and bounties. 6. BETTER DIVISION OF LAND INTO SIZES. 7. Methods of resumption. 8. Methods of land taxation: Federal. 9. Methods of land taxation: State. 10. BETTER DIVISION OF LAND INTO USES. 11. Torrens transfer legislation. 12. BETTER DIVISION OF CAPITAL. Group settlement. 13–30. EQUALISING THE INTERESTS OF THE INDIVIDUAL AND THE STATE IN THE USE OF 13. *Land.* Leases and licences. 14. Bounties. 15. *Human capital.* Wage awards. 16–30. *Organised methods in production.* 17. Federal Control. 18. In the Dairy Industry. 19. The Paterson Stabilisation Scheme. 20. In other Primary industries. 21. Wheat Pools. 22. Queensland Producers Association. 23. Fruit Marketing Organisation (Queensland). 24. Primary Produce Pools Act (Queensland). 25. Co-operative Associations Act (Queensland). 26. Voluntary Co-operation. 27. Overseas Farmers Co-operative Federation, Ltd. 28. The relative importance of the industries controlled. 29. Proposed control of wool marketing. 30. Co-operation between producers and consumers. 31–39. CONTROL OVER SAVING. 32. Organisation of credit. Loans to farmers. 33. Department of Markets and Migration. Export Guarantee Act. 34. Long term loans to farmers. 35. Savings Banks. 36. Investment under Migration Agreement with the United Kingdom. 37. Public investment and borrowing. 38. Conservation. 39. Conclusion.

1. Primary production in Australia is subject to a large amount of deliberate control, both within State boundaries and over the whole Commonwealth. It seems desirable to examine how far this control is removing the types of economic friction which prevent the adequate use of the factors of production enumerated in Part II. First, however, a brief account must be given of the land problem in the past and to-day.

One of the main problems which confronted the first Governors of Australia was that of settling the land in a way which would be profitable both for the existing population and for the much larger population of the future. In 1797, McArthur, the pioneer of wool-growing in Australia,

protested against the growing nationalisation of production. In 1798, a Commission was appointed to hear the grievances of settlers, and their report " was the first attempt to mould land policies by actual experiment and observation, the first utilisation of actual data instead of general assumptions."[1]

2. After the failure of Free Grants, various forms of " systematic colonisation," now usually associated with the name of Wakefield, were tried ; but the growth of squatting [2] in the middle of the nineteenth century upset the then prevalent notion of a " sufficient price " for land and of an ideal balance between land, labour and capital. Governments had to settle the boundary fights between squatters, and later to supervise the division of land between the pastoral squatter and the would-be agriculturist.[3] Control became very necessary. In practice, however, it resulted in abuses of all kinds and excessive speculation.[4] More and more detailed control developed therefore, and the keynotes of land policy henceforth were an insistence upon limited selection and increasing Governmental supervision. From 1855 onwards, a body of legislation grew up in spite of many failures. Its aim was to protect the community without unduly hampering the activities of individuals, and to-day the land policies of all the States are based on more or less the same principles.

3. The area of Australia is 1,904 million acres. In 1925 this was divided up as follows : [5]

[1] Roberts, *The History of Australian Land Settlement*, Chap. I, p. 9.

[2] Early in the nineteenth century the administration in New South Wales defined the area of settlement and divided it into nineteen counties. Owing to the growing world market for Australian wool, men were attracted by new and fertile lands outside these limits, and unauthorised occupation took place on a large scale. This was known as " squatting." (See Roberts, *History of Land Settlement*, Chap. XIII.)

[3] A similar problem exists in Argentina to-day.

[4] For example, in 1861 Free Selection started in N.S.W. During the first six years only 7,700 out of 16,000 settlers remained on the land, and of these less than 1,100 paid dues. Roberts, Chap. XIX, p. 230.

[5] *Commonwealth Year Book*. The Areas of the States are as follows :

N.S.W.	198	million	acres.
Victoria	56	,,	,,
Queensland	429	,,	,,
S. Australia	243	,,	,,
W. Australia	625	,,	,,
Tasmania	17	,,	,,
N. Territory	335	,,	,,

	Commonwealth as a whole.		N.S.W.	Queensland.	Victoria.	S.A.	W.A.	Tasmania.	Northern Territory.
	Per cent.	(1913)	Per cent.	Per cent.	Per cent.	Per cent.	Per cent.	Per cent.	Per cent.
Unoccupied, or occupied by Crown	42	(47)	10	23	25	44	58	48	56
Held under lease or licence	49	(45)	58	71	12	50	37	15	44
Alienated absolutely or in process of alienation .	9	(8)	32	6	63	6	5	37	·1
	100	100	100	100	100	100	100	100	100

It will be seen that the amount of land over which the Government has direct control is considerably less in the older States. The contrast between the 63 per cent. alienation in Victoria and 6 per cent. in both Queensland and South Australia is very marked.

A comparison with the figures for the Commonwealth, in 1913, shows that settlement in recent years has been fairly slow. Methods have, however, been sounder than in the early days. Progress has been difficult, as huge areas of the continent appear at present unfit for settlement or closer settlement,[1] and the cost of resumption of land in the big estates is high. It is the task of the newly appointed Development and Migration Commission to increase the settled area.

4. Mobility of resources in Australian primary production has been prevented by economic friction. Ignorance concerning Australian natural resources on the part of potential producers, and inertia, are a huge drag on the development of agriculture. The possibilities of the continent are still unknown or unappreciated and the knowledge that exists is not of long standing.[2] The

I, 1 & 2.

[1] See writings of Professor Griffiths Taylor, including recent articles in Canberra supplement of *Sydney Morning Herald*, on Central and Northern Australia, May 9, 1927.

[2] For example, relatively little is known by the world in general of the possibilities of Queensland or the Northern Territory, or of farming in Western Australia, South Australia and the North-West of Victoria.

interest of the world can only be aroused through the broadcasting of information and through further surveys.[1] The work of supervision and demonstration carried out by the Departments of Agriculture in all States, is therefore a natural growth. The provision of first-class tuition, including maintenance, at agricultural colleges for less than £50 a year,[2] experimental farms, local lectures,[3] inspection of produce, research into pests and the diseases of plants and animals, assistance in breeding and marketing, and the interchange of experiences at annual conferences between the Ministers of Agriculture in the various States, are all encouraged by these Departments.[4] Production is also assisted through the inspection and classification of lands, on a large scale. This has sometimes been carried out by State Royal Commissions on Rural Development or Closer Settlement. The most important movement that has been made so far, is the appointment of the Commonwealth Development and Migration Commission[5] in 1926, and of the Commonwealth Council for Scientific and Industrial Research. The Commission is concerned mainly with primary production, and its problems are essentially the same as in 1836, "the mixing of the right proportions of land labour and capital into the Australian cake. The chief concern is to ensure that the cake shall not emerge as mere dough."[6] The Council's duty is to assist the application of science to industries of all kinds. A minor but necessary way of helping the realisation of Australian agricultural possibilities is the provision of facilities for inspection of

[1] A correct classification of land is of vital importance to settlers.

[2] The number of agricultural colleges in Australia is comparatively small. In 1926 there were 7 colleges with 1,111 students and 45 experimental farms. The colleges and farms together employed 785 hands. Fees are, however, remarkably low. In Victoria, for example, no charge is made for instruction and a fee of £35 a year is charged for maintenance, stationery and medical expenses. Expenses are met mainly by Government grants and sale of produce.

[3] Some of these lectures are given from demonstration waggons on what are known as "Better Farming Trains."

[4] For details, see Journals of Agriculture published by various States, and the *Reports of the Annual Inter-State Conferences of Ministers of Agriculture.*

[5] See Pt. III, Chap. V, par. 6.

[6] G. L. Wood, *Economic Record*, November 1926.

land by intending settlers. In Queensland, for example, half-fare tickets to areas open for settlement are provided for those interested, and in several areas a camp is open at which board, lodging and a guide are supplied at the small cost of 5*s*. a day.

5. Inertia in the use of Australian resources is overcome to some extent by the issue of immigration pamphlets and by other forms of advertisement, including the provision of cinema entertainments. The information supplied through these sources is often referred to as over-optimistic, but after examination, it will be seen that, on the whole, they do not exaggerate nor do they suppress facts. The Commonwealth authorities having realised the prevalent tendency to talk of the disadvantages of new countries and ignore their advantages, an attempt is made to stimulate imagination in a direction favourable to Australia.[1] Again, immigrants often think that a knowledge of farming comes by nature, and inducements are needed to persuade them to learn their work and make the best of their land. This is done to some extent by the supervision of land settlement. A bounty given by the State for the production of a commodity, in addition to serving as a payment towards the expenses of pioneering, may also tend to overcome the inertia of farmers toward a new idea.[2]

I, 1 & 2.

6. The indivisibility of resources has been a hindrance to production in Australia, and control over the size and use of units of investment in land is as desirable as the removal of ignorance and inertia. The need for the establishment of more schemes for closer settlement is being realised, as subdivision of holdings has usually led to greater production. The South Australian Rural Settlement Commission of 1925 included in the term "closer settlement" "all forms of land settlement leading to increased rural population irrespective of whether the particular form of agriculture calculated to give the most

II, 21–28.

[1] People in Great Britain hear a good deal about returned and dissatisfied immigrants, but do not have the opportunity of seeing successful settlers on their farms.

[2] See Part III, Chap. III, par. 21.

remunerative returns per acre involves the ploughing up of the land or the maintenance of livestock and the improvement of pastures." Closer settlement is of particular importance to Queensland and South Australia. These States have, broadly, four types of land. There are, first, certain areas of poor rainfall which under existing conditions cannot be included under a scheme; and, secondly, a number of areas fairly closely, but insufficiently settled. In some of the more favoured localities blocks are, on the average, of relatively small dimensions, but there are usually large properties scattered through such districts. In some instances, the larger holdings practically surround a township and interfere seriously with the progress of the district. Thirdly, there are lands held in blocks of moderate size. The need for subdivision of these is not of immediate importance. A fourth class is the land held in large estates which in the interests of the community frequently ought not to be worked as single holdings. Subdivision does not necessarily mean the disbandment of valuable studs and the deterioration in quality of livestock, nor need it mean a reduction in the number of sheep carried on the land. Scientifically carried out it can discourage waste of resources.

7. The two methods used by Australian States to bring about subdivision are resumption and taxation. A general feature of land policy is the existence of Acts authorising States to repurchase alienated lands in order to subdivide them and throw them open to settlement on relatively easy terms.[1] In most States compulsory acquisition of land in return for compensation is authorised by Acts of Parliament. Payment is sometimes made in Government debentures and sometimes in cash. In Queensland, for example, the Minister may with the approval of the Governor in Council, acquire for the Crown, either by agreement or compulsorily, private land in any

II, 21.

[1] The criticism may be made that the State has frequently put settlers upon unsuitable land. This is true. But private enterprise frequently puts settlers on unsuitable land and does not tide them over their difficulties as does the State. Examples of this are to be found in the recent history of South Africa.

part of the State. The purchase-money may be paid in cash or at the option of the Minister and with the consent of the owner of the land, wholly or in part by debentures. Not more than £½ million may be expended on purchases in any one financial year. In no States has acquisition of land been large in recent years. The position in the various States is as follows:

TOTAL AREA ACQUIRED FOR CLOSER SETTLEMENT PURPOSES BY 1913 AND 1926

	1913.		1926.	
	Area. Million acres.	Cost. Million £	Area. Million acres.	Cost. Million £
New South Wales	·67	2·5	3·95	13·9
Victoria	·56	4·2	·93	7·0
Queensland	·66	1·7	·97	2·3
South Australia	·62	1·9	·75	2·4
Western Australia	·14	·14	·50	·5
Tasmania	·05	·14	·09	·4
	2·7	10·6	7·1	26·5

Of the 7·1 million acres acquired by 1926, 6·6 million had been allotted to farmers and others. The total amount acquired since 1913 is not very great. Nevertheless, the Acts exist and can, if necessary, be used when immigration on a large scale begins.

Large areas held under lease or licence are frequently resumed by the State Governments for closer settlement, when the leases or licences expire.

8. Subdivision is also encouraged by taxation. Besides being a means to revenue, the State and Commonwealth Land Taxes aim at breaking up large estates. The Commonwealth tax of 1910 did to some extent achieve the result aimed at. The tax to-day is based on the unimproved value of land.[1] Land worth £5,000 or

II, 21.

[1] Some interesting facts about the tax will be found in the Report of the Royal Commission appointed in 1925 to discover a satisfactory Method for Determining the Freehold Unimproved Value of Land held under Crown leases. The task, it considered, though difficult, was not impossible.

less is normally exempted. If, however, the owner is an absentee, no exemption is allowed. The rates of tax are as follows:

For that part of the taxable value which does not exceed £75,000	1*d.* plus $\frac{1}{1875}$*d.* for the first £ plus $\frac{1}{1875}$*d.* for each increase of £1
For every £ in excess of £75,000 .	9*d.*
If owners are absentees:	
For so much of the taxable value as does not exceed £5,000 .	1*d.*
For so much as exceeds £5,000 but does not exceed £80,000	2*d.* plus $\frac{1}{1875}$*d.* for the first £ in excess, plus $\frac{1}{1875}$*d.* for each increase of £.
For every £ in excess of £80,000	10*d.*

Between 1923 and 1928 over £11½ million was collected in this way.[1]

9. The first State land tax was imposed in South Australia in 1884. The latest tax was imposed in Queensland in 1915, and is graduated according to the unimproved value of the land. Exemption, which varies in amount according to the class of land and the use to which it is being put, is allowed to all tax-payers except absentees, companies and mutual life assurance societies. The maximum exemption is £1,500 and the minimum £300. If the taxable value is less than £500 the tax is 1*d.* in the £.

II, 21.

If the value is between £500 and £999	the tax is 1½*d.* in the £
1,000 and 1,999	1¾*d.*
2,000 and 2,499	2*d.*
2,500 and 2,999	2¼*d.* and a super-tax of 1*d.* in the £
3,000 and 3,999	2½*d.* and a super-tax of 1½*d.*
4,000 and 4,999	2¾*d.* and a super-tax of 2*d.*
75,000 upwards	6*d.* and a super-tax of 2*d.*

If the land is undeveloped a tax of 2*d.* is added to each £1 of taxable value. The total amount collected from State

[1] The rate of the Federal Land Tax has recently been reduced by 10 per cent. See Report of Duckham Mission for criticism of the method of graduation used in the Tax.

land taxes between 1921 and 1926 was over £6 million.[1] The exact effect of these taxes cannot be traced, but the following figures show the changes since 1910 in the number of holdings classified according to acreage groups.[2] In N.S.W., Victoria, W.A. and Tasmania:

	1909–10.	1924–5.
1–499 acres	135,399	128,222
500–9,999 acres . . .	33,715	54,065
10,000–19,999 acres . . .	628	768
20,000–49,999 acres . . .	361	288
50,000 and over . . .	109	68
	170,212	183,411

The total area held had risen from 94 to 123 million acres. The number of holdings under 500 acres has, it is true, decreased, but there has been a very marked fall in the number of holdings of 20,000 acres and over (470–356). Holdings between 500 and 19,999 acres had increased from 34,343 to 54,833.

10. As has been mentioned, it is also possible for the State to assist the division of land into the most suitable uses. The lands within an estate are never quite homogeneous in character nor uniform in capacity. The water-absorbing and retaining powers of the soil, the nature of the subsoil and its influence on drainage, etc., all demand a proper survey and laboratory investigation. Co-operation between Departments of Lands and Agriculture is therefore desirable. This need has been realised and connection is maintained between Departments in the same State and between different States.

II, 21.

11. Efficient land transfer legislation assists the division of estates. The Torrens system of Australia has been imitated with modifications in several parts of the world, and is cheap and yet certain. It was started in South Australia and provides for the issue of certificates of title to land at an official registry. All

II, 22.

[1] In New South Wales the tax is only levied on the unincorporated western portion of the State, and revenue is consequently small (about £3,000 per annum).

[2] There is a difference of one acre between the classification used in the two years. For example, that of 1910 reads 1–500 acres, 501–10,000, etc.

transactions in the land are noted in the certificate so that purchasers can easily see whether encumbrances attach to the land. A "long uphill fight was necessary to convert the idea into practice because the entire legal profession was up in arms to uphold the old traditions, especially when such sacrilege was advanced by a layman."[1]

12. Subdivision of the second factor of production, material capital, is brought about through the income tax, death duties and loans to settlers.[2] The indivisibility of the third, human capital, is being tackled by means of group settlement which overcomes the resistance to movement brought about through home and social ties. Progress is slow as difficulties are many. Under some of the migration schemes provision is made for a wife who is entering domestic service and for a husband who is taking up agricultural work, to be sent to the same district. Western Australia has gone furthest in scientific group settlement. In 1921, an agreement was made between the Commonwealth, Western Australia and Great Britain under the Empire Settlement Act, for the raising of money to establish 75,000 migrants in Western Australia. Free homestead blocks of 16 acres each, in the south-west timber district, were made available to the settlers who, after a preliminary period of country employment, were to be sent on the land in groups of about 20 with their wives and families.[3] Advances were made in the form of wages at the rate of 10*s*. a day, and under the supervision of expert foremen from the Lands Department, land was cleared co-operatively with the aid of explosives and tree-pulling machines. Opportunity was given to settlers, in their spare time, to increase the preparation of their own particular blocks. Reasonable equipment and stock was provided. Each settler had to undertake to repay expenditure, including interest incurred on his behalf, and a charge was made for supervision, not exceeding $7\frac{1}{2}$ per cent. of the total debt. The total indebtedness of a settler was not to exceed

II, 23, 24.

[1] Roberts, *History of Australian Land Settlement*, p. 219.

[2] See paragraphs 31–39 and Chap. III, par. 22.

[3] See E. Shann, "Group Settlement in Western Australia, *Economic Record*, Vol. I, No. I, Nov. 1925.

£1,000. By 1924, difficulties had arisen in the operation of the scheme and a Royal Commission of inquiry was established. It was found that the preliminary training and testing of immigrants had been neglected, and that human nature uncontrolled, had raised the costs of settlement enormously. Up to the end of 1926 about one-third of the assisted settlers had left their holdings. Some settlers did "not attempt to do anything extra for themselves in their spare time,"[1] and it was found that the capacity of a settler working for himself on piece rates was four times greater than as a group member under a foreman. The pace of the group tended to be that of the slower members. The Commission therefore recommended the adoption of some system of piece-work. Farms had cost from £1,400 to £1,650, and were not worth the amount expended on them. Nevertheless, about 1,300 British families have been assisted to settle under the scheme and about 1,000 British and Australian families have joined the groups without assistance. The scheme has not yet been reopened but vacancies in the group are filled from time to time by new settlers. The labour of clearing the holdings is now paid for on a piece-work system and sustenance payments are given for the first three months only, instead of for about two years.[2] The aim of the State Government is that settlers should ultimately buy their holdings. It might be worth while pointing out here that until group settlement is carried out again on a large scale, a division of the labour of the family between domestic and agricultural work in the same districts can contribute towards a solution of the problem of "indivisibility," and may enable husband and wife to live together.[3]

I, 7.

[1] The difficulty here as in other schemes is that a large number of people when left on their own with a large block of land, a house and enough money for their immediate wants, will become lethargic.

[2] See Report of Overseas Settlement Committee, 1926.

[3] The Development and Migration Commission have made a similar suggestion. They considered that "the seasonal nature of the demand for labour in many country districts is due partly to the inadequacy of accommodation for permanent employees. Bachelor accommodation is, as a rule, all that is available, and even that is frequently of a makeshift character." *Report on Unemployment and Business Stability*, 1928.

13. The land policies of the States also tend to lessen the gap between the returns to the community from investments in agriculture and the return to the individual, for in most cases the right to hold land is only granted in return for social duties. To-day, in no States, are free grants made in fee simple except for charitable, educational or public purposes,[1] though in all States except Queensland, the Northern Territory, and Federal Territory (which has an area of only 602,000 acres) auctions of Crown lands are held periodically and cash or deferred payments are made. Land may be sold by private contract under special circumstances. As a compromise between sale by auction and the granting of a lease, ordinary purchase may be allowed, in return for the fulfilment of certain conditions as to residence or improvements. Leases and licences are granted in all States either for a certain period or in perpetuity. Perpetual leases are usually granted subject to conditions which include the payment of an annual rent varying periodically according to the value of the land. In Queensland, for example, neither conditional nor unconditional purchases of Crown lands have been allowed since 1916. The only way in which Crown lands can be made permanently available to a settler is through the grant of a Perpetual Lease, which cannot be turned into a freehold. The maximum area under a lease is 2,560 acres, but so large an allocation is only likely in the more remote parts of the State. An applicant who undertakes to reside on his selection during the first five years has priority over others. He will be given further priority if he agrees to cultivate at least one-twelfth of his selection within the first three years. For the first 15 years the annual rent is 1½ per cent. of the notified capital value, except that during the second year no rent is payable. In order that cost to the lessee may be made to vary in accordance with changes in the general value of the land, the annual rent is adjusted every 15 years by a Land Court and equals 1½ per cent. of the unimproved value of the land.

II, 10–20.

[1] Free homestead blocks are still granted in W.A. subject to certain conditions.

The selector, within five years, must fence the land, and he will only receive the lease after this has been done. The lease may be mortgaged, sub-divided, transferred or sub-let under certain conditions. Queensland also grants conditional leases of Crown lands for grazing selections, with a maximum area of 60,000 acres. The term of the lease may extend to 28 years. The rent for the first seven years is as notified, or according to the results of a tender, and for each subsequent seven years is fixed by the Land Court. As is shown in par. 3, almost three-quarters of the area of Queensland is held under lease or licence (304 million acres).[1] Of the 76 million acres which were taken up between 1921 and 1925 (excluding prickly pear selections) only one and a half million acres were taken up under perpetual lease, while 32 million acres were taken up under Occupation licences and 24 million under Pastoral leases. Occupation licences are terminable at 3 months' notice and must be renewed annually. The rent is notified by the Government or fixed by the Minister. Pastoral leases are granted for a term not exceeding 30 years. The amount which can be held, as well as the rent for the first 10 years, is fixed by the Minister. The rent for the second and third periods of 10 years is fixed by the Land Court.[2]

14. Another method attempted, which tends to make less unequal the returns to the community and the individual, is the payment of bounties on agricultural produce. This may make it worth the farmers' while to produce certain crops. Between 1922 and 1927, over a million pounds was paid in bounties to primary producers. An account of the history and aims of the Cotton Bounty will show the belief held in the possibilities of bounties, as well as the extent to which one remedy may in practice help

II., 10–20.

[1] Of the 304 million acres, 184 million were held under pastoral leases, 32 million under occupation licences, 82 million, grazing selections, and 3½ million, perpetual lease selections. The area held under occupation licences has remained almost stationary since 1921.

[2] It is also considered to be against the public interest that illiterates should be allowed to hold land. Accordingly, in Queensland an alien, before he can hold a selection, must obtain a certificate that he is able to read and write from dictation, words in such language as the Minister may direct. He must in addition become naturalised in five years.

to overcome several types of economic friction. The Commonwealth, under the Cotton Bounty Act of 1926, allocated £900,000 for expenditure on bounties to Australian growers of seed cotton of a prescribed grade, and to manufacturers of cotton yarn.[1] Not more than £120,000 may be paid in any one year on seed cotton or £60,000 on cotton yarn. As a result of the bounty, the Queensland cotton crop is taken over from the Cotton Pool Board by the Australian cotton-spinners who are hosiery and woollen manufacturers on a large scale. The crop will be divided among them on a pro rata basis according to the quantities for which they ask. The arrangement will, it is claimed, mean a saving to the growers of all expenses incurred in commission, transport and other charges. In 1927, all the cotton produced, a comparatively small amount, was spun by the bounty-fed and tariff-protected Australian manufacturers. About a hundred thousand pounds was paid under the bounty.

15. In order to ensure a return to individuals who have invested their labour and capital in agriculture, duties have been imposed on certain agricultural produce. These may prevent the import of overflow produce from other countries and so tend to stabilise prices. On the other hand, they may allow too great an increase in price to the consumer. The effect of duties on agricultural implements, upon the return to farmers and to the community, has been dealt with in Chapter III.

II, 10–20.

The return to rural workers is only to a limited extent regulated. The wages of shearers, sugar-cane workers and fruit-pickers are controlled by Federal or State awards, and there are State awards for Government agricultural employees, sheep and cattle station workers,

[1] The yarn bounty is only granted subject to the following provisions: 1. The deferred duty on cotton yarns must not have been brought into operation by the Federal Parliament. 2. The yarn must be of a merchantable quality and at least 50 per cent. of the cotton used in its manufacture must (subject to arrangement with the Minister and reference to Parliament) have been grown in Australia. 3. The manufacturer must pay the wages and observe the conditions of employment laid down by the Commonwealth or State industrial tribunals.

and a few other types of workers on the land. As has been shown,[1] better accommodation for agricultural workers is being insisted upon by special Acts of Parliament, and greater control over the wages and conditions of agricultural workers is developing in certain States.

16. The suggestion that the cost of a tariff or of the Australian standard for workers, is too heavy a burden for the farmer to bear, is frequently answered officially by the remark that the farmer gets plenty of assistance in other directions. The earlier part of this chapter may help to show how far this defence is sound. Nevertheless, to an individual farmer, well established, efficient and keen at his work, the forms of assistance mentioned may, on the whole, seem rather slight. Perhaps the most important efforts to bring together the interests of the community and of individuals in primary production are those being made through encouragement to various kinds of co-operation. It is in the direction of organisation among farmers that collective action through governments and individuals can show the most obvious results in overcoming economic friction. The two most important recent processes may be summed up in the phrases, "compulsory co-operation" and "orderly marketing." In the eastern States the success of co-operation among producers has even led to the beginning of co-operation between producers and consumers.[2] The experiments are in their infancy and the interests of the consumer in agricultural organisation are only just being studied. In the agricultural and dairy produce export trade there is a tendency to organise on a Commonwealth basis.

I, 9. II, 7, 16, 18.

17. Commonwealth developments in organised marketing are of the greatest importance as they cover such a large area. Producers in all the Dominions complain that they do not obtain a fair return for their efforts. In Australia this is as true as elsewhere, and the producer is feeling the need of a minimum price for his

I, 9. II, 7, 16, 18.

[1] Part III, Chap. IV. See also *Report of Development and Migration Commission on Unemployment and Business Stability* (1928).

[2] See par. 30.

product for the same reasons that the workers demand a living wage.[1]

18. In the Dairy industry, organisation and control have already developed as a result of this feeling. Three-quarters of the butter manufactured in Australia is the produce of farmers' co-operative factories.[2] In addition, each State has its Dairy Department, which is responsible for the inspection of herds, the framing of regulations as to the construction, sanitation and inspection of buildings, the grading at the factory by a certified grader of cream and milk in accordance with its quality. Payment to the farmer on a scale varying with that quality is compulsory. Control is also exercised over export.[3] Samples are tested from every consignment and a national "Kangaroo" brand has been established. Nevertheless, this voluntary co-operation and Government inspection was found to be insufficient when depression hit the Dairy industry. Producers became dissatisfied with the conditions under which their produce was being marketed. They believed that fluctuations had sometimes been encouraged by the buyers themselves with the object of making larger profits. Stabilisation was suggested as a remedy. Co-operative associations found themselves unable to control the export trade effectively so long as they did not embrace the whole of the exportable supply. Further legislation was therefore brought in after it had been approved in principle by a majority of producers. It was not intended to supersede voluntary co-operation but to facilitate what the co-operative associations had set out to do. Under this legislation, control need not be exercised fully,

I, 9. II, 7, 16, 18.

[1] Cf. speech of Queensland Minister of Agriculture at Australian Ministerial Conference on Agriculture (*Queensland Producer*, 9/6/26). "In Australia we give certain assistance to various branches of the manufacturing industry, and industries affected by overseas competition can always approach the Tariff Board and state a case for an increase in duty. This is done with a view of maintaining what has been referred to as the Australian standard of living. If that is a sound principle in the manufacturing industries, such a basic principle can be applied with equal justice to the agricultural industry."

[2] These are, on the whole, the results of voluntary co-operation.

[3] See Commonwealth Commerce (Trade Descriptions) Act 1905–26 and Customs Act 1901–25.

but the necessary authority is there and has the power to remove quickly certain obstacles which otherwise would take years to surmount. In 1924, the Dairy Produce Export Control Act was passed by the Federal Parliament after a referendum of dairy producers.[1] A Board of thirteen members, twelve of whom represent producers of various kinds, and one the Commonwealth Government, was set up in July 1925, to exercise control. It works in conjunction with similar boards set up in the States concerned, under their own legislation. The export of dairy produce (apart from butter and cheese shipped to the East) is prohibited, except under licences issued by the Department of Markets and Migration on conditions laid down by the Board. The Board acts as agents of the farmers for the negotiation of contracts of carriage by sea, and although it may not at any time own the produce it controls, it has full authority to make such arrangements and give such directions as it thinks fit for the handling and storage of produce. The Board has not, as yet, exercised its powers to the full extent. Its policy is to improve the organisation of markets, to bring about co-ordination among distributors and selling agents (chiefly in the United Kingdom), to attempt to establish the identity of Australian produce, and by better methods of grading and packing, to ensure continuity of supplies,[2] to advertise, and to arrange for the financing of the industry by the Rural Credits Department of the Commonwealth Bank.[3] Administration expenses are supplied from a levy collected by the Customs Authorities of $\frac{1}{160}d.$ on every pound of butter exported and $\frac{1}{320}d.$ on every pound of cheese. It is claimed that considerable savings

[1] New Zealand was the first Dominion to pass this type of legislation (see New Zealand Meat Control Act of 1922). Australia followed, with legislation for the Meat, Dried Fruits, Dairy and Canned Fruits Industry. It should be noted that, since 1922, there has been in existence an Australian Dairy Council containing Government and producers' representatives. Its work is mainly advisory and is to-day co-ordinated with that of the Export Control Board.

[2] It used to happen that owing to the different routes and speeds of ships, five or six shiploads of Australian and New Zealand butter would arrive at the United Kingdom within a few days. (See *Report of Imperial Economic Committee on Dairy Produce*, p. 67.)

[3] See par. 32.

have already been made by the Board in negotiating rates of freights and insurance.

19. On January 1, 1926, producers formed an Australian Stabilisation Committee for the Dairy Industry, with advisory committees in each State. The motive behind this step was the need for a "decent standard of living" for the dairyman. Prices realised on butter sold overseas had been so low that farmers had tended to sell their produce at home. The domestic price had therefore fallen to the export level. This was less than the world level of butter prices to the extent of the cost of transport, insurance and other marketing expenses, which it was estimated amounted to 3*d.* a lb. As this price did not prove sufficiently remunerative, it was considered that effort was needed to encourage export in order that a higher domestic price might be maintained. A bounty on export would bring this about. The funds from this bounty, it was suggested, could be supplied from the increased price received from the home consumer. Accordingly the Committee was formed by producers to control what was known as the Paterson Stabilisation Scheme, a purely voluntary experiment adopted by the industry. The home consumer of butter, who in recent years has consumed about two-thirds of the total production, was to be charged 3*d.* per lb. extra for his butter. This would bring the domestic price up to world market level. A levy of 1½*d.* a lb. was made on all factory butter produced, and from the proceeds of this a bonus of 3*d.* per lb. was paid to exporters of butter.[1] The first result of the scheme was, of course, a loss to the Australian consumer, as he could only obtain butter at the world market rate. It is claimed, however, that the dairyman has benefited considerably, that the industry has been set on its feet and co-operation strengthened. It is also maintained that the consumer will ultimately benefit from better organisation in the Dairy industry. The Paterson Scheme is an expedient of dairymen, which they admit is

I, 6, 15.

[1] This levy will vary according to the ratio of the exportable surplus to local sales. During five years ended June 1926, the average yearly production of butter was 263 million lb.; of this, 160 million lb. were consumed in Australia.

at present unsatisfactory, but which is attempting " to deal with conditions as they find them." They are asking for a Federal Dairy Control Board to regulate home and overseas transactions. The main argument offered is that the manufacturers have their organisations which control general organisation and marketing, trade unions help to secure a decent living for their members, whereas the dairyman is in the same position as the unorganised industrial worker. The scheme is obviously open to objections, and the question whether the advantages to be gained from maintaining the present size and prosperity of the industry are worth the loss to consumers, needs adequate investigation and thought.[1]

20. The progress of control in the Dairy industry began with the control of standards in manufacture.[2] It has extended to control of organisation in the export trade, and may result in co-ordinated control of marketing in the whole of the Australian dairy trade. The Australian consumer has been contributing directly to the cost of the latest experiments. Export control has also developed in the Dried and Canned Fruit industries. A large export trade in canned fruit does not yet exist. In the Dried Fruits industry, the Export Control Board distributes produce through the usual trade channels, but it has a London agency which, by a careful valuation of the various grades of fruit, attempts to ensure that growers will obtain a price for their produce equal at least to that of current world values for fruit of their particular quality. In the Meat

[1] Some of the dangers of the scheme are discussed in an article, called the " Costs of Control," by L. F. Giblin, in the Marketing Supplement to the *Economic Record*, May 1928.

[2] The following is an extract from the *Agricultural Gazette* of New South Wales of March 1924 : " Prior to the passing of the Dairy Industry Act in 1915, no effective supervision of the manufacture of butter existed in N.S.W. and more than half the quantity manufactured was unfit for table use. Since the introduction of the Dairy Industry Act a great change has taken place and now less than 10 per cent. of the butter manufactured is unfit for table use." The improvement has been brought about, the article claims, from :—(1) the supervision of raw material delivered from farms to butter factories ; (2) control over butter manufactured, by a staff of instructors and inspectors from the Dept. of Agriculture ; (3) the decentralisation of administration of the Dairy Industry Act ; (4) the marketing of butter under brands denoting the grade quality.

industry, the Australian Meat Council has recently been wound up owing to the opposition of the large graziers of N.S.W. and Queensland. It is not the idea of better marketing which has proved unpopular but the structure of the Act. In the Fresh Fruits industry, organisation has not taken place, owing to an adverse poll. Future development in these industries is likely to prove of great interest to students of applied economics.[1]

21. In the co-operative marketing of wheat, greater efforts have been made by Canada than by any other Dominion. Australia has, however, been experimenting with both voluntary and compulsory wheat Pools. In 1926–7 voluntary Pools operated in New South Wales, Victoria, South Australia and Western Australia, though in none of these States did the proportion dealt with by a Pool exceed 65 per cent. of the total yield. In New South Wales and Victoria financial accommodation was supplied by the Rural Credits Department of the Commonwealth Bank,[2] and the private and associated Banks, and was guaranteed by the State Governments. It is interesting to note that in South and Western Australia funds for the Voluntary Pool were made available by the Co-operative Wholesale Society Ltd. of Great Britain. In Queensland, a Wheat Board, similar to the other Commodity Boards mentioned (though working under the Wheat Act of 1921), controls the Compulsory Pool. The difficulty of retaining the membership of Pools is being surmounted by the more general adoption of contracts in the Canadian form.[3]

I, 9.
II, 7, 16, 18.

22. The most important single effort in organisation is that of Queensland, which since 1922 has built up a remarkable framework of producers' societies, representing about 28,000 producers.[4] The State

I, 9.
II, 7, 16, 18.

[1] See Dried Fruits Export Control Act 1924; Meat Industry Encouragement Act 1924; Canned Fruits Export Control Act 1926.

[2] See par. 32.

[3] In times of low prices Pools are supported more than in times of high prices, as farmers tend to compare current prices with those given by the Pool in the previous season. The Canadian contracts bind the grower during the term of the contract to deliver to the Pool all wheat grown by him.

[4] See also par. 24. The total number of farmers in Queensland is about 30,000.

aims at " placing agriculturists by organisation and generous Government backing in a position to give effective consideration to their own problems and to evolve solutions satisfactory to them."[1] At present the interests of the consumer are not directly represented, though it is possible that some effort will be made to remedy this in the future. Acts were passed between 1922 and 1925 which enabled Local Producers' Associations to be formed in any centre in the State, at the demand of 15 or more primary producers of a commodity.[2] The Associations elected between them a number of District Councils and a number of Commodity Boards, and these in turn sent representatives to the Council of Agriculture. The Council had a President (the Minister for Agriculture and Stock), 8 representatives of District Councils, 8 of Commodity Boards, and 3 Government nominees. The work of the Council consisted in obtaining reductions in freight rates and in the price of fertilisers; also in supplying information of agricultural organisation both in and outside the State, not only to the farmers themselves [3] but to official bodies such as the Tariff Board and to the Federal Government. The Council, for example, initiated a farm-costing system,[4] and was responsible for the formation of several Pools for stabilising the market. The full Council meetings were held quarterly, while standing committees met twice a month. These committees represented various sections of the Agricultural industry such as Dairying, General Agriculture and Fruit. Funds for the whole scheme of organisation were provided by the Government and the farmers themselves. The Government subsidy, which had been at the rate of about

[1] Pamphlet issued by Council of Agriculture.

[2] Of the 649 L.P.A.s connected with Mixed Farming, 515 were, in 1926, on a commodity basis.

[3] The Council publishes a stimulating weekly paper, known as the *Queensland Producer*, in which producers can express their views. The motto of the paper is " Co-operation, Education, Organisation."

[4] Sets of books, known as *Farm Cost Data*, were sent free on application to any member of a Local Producers' Association, if he would undertake to keep daily records of his transactions. Every 12 months he returned the books to the Council, whose Accounting Committee made out a Production Account for each class of commodity and compiled for him a Profit and Loss Account and Balance Sheet.

£20,000 a year, ceased after June 1927. A levy of 1*d.* on every £2 realised on farmers' produce provided the remainder of the money.[1] The levy brought in about £25,000 in 1925–6, at a cost to producers of about 14*s.* per head.[2]

23. Having prepared the ground for large-scale organisations of producers, the Government made an effort to prevent minorities from hindering the development of this organisation. Two Acts were passed; the Fruit Marketing Organisation Act of 1923, and the Primary Products Pools Act of 1922. The former was the result of investigations made by a special Committee of the Council of Agriculture. A conference of representatives from all fruit-growing districts was consulted by the Committee and almost unanimously adopted their recommendations. As a result, in 1924 a Committee of Direction was formed, with sectional group committees to represent the five main sections of the industry. During its first year, the Committee was given statutory control over all transactions in Queensland fruit in the Southern States. The number of agents was limited in order to prevent cutting of prices, and to ensure that a lower rate of commission would be charged to producers. Advice was received from the Agents Committee concerning improvements in grade, packing or quality, grading regulations were made and inspectors appointed to see that they were carried out. The intention of the Act was to cause all fruits to be marketed through the hands of the Committee.

I, 9.

Legal difficulties were encountered by the Committee in 1925, but the Act was amended and "transportation of fruit and protection of growers' interests by effective representation on the southern markets continue to be outstanding features of the service being rendered to growers."[3] For example, in the Pineapple industry, the Committee arranged for fruit to be marketed through one channel.

[1] Sugar-cane-growers paid ½*d.* per ton of sugar delivered at mills.

[2] This cost is likely to increase now that the Government subsidy has ceased. There was, however, in 1925–6, a surplus of revenue over expenditure of £7,500.

[3] Report of Director of Queensland Producers' Association to Council of Agriculture, 1926.

This has resulted in a more stable outlook for growers, canners, distributors and consumers. Larger quantities of fruit have been marketed, and the return to the grower has increased, while the consumer has not suffered. In 1921, 100,000 dozen tins were canned, the grower received 2*s.* 6*d.* per case, and the wholesale price was 11*s.* in the summer and 9*s.* in the winter ; in the summer of 1927 over 200,000 tins were canned, the grower received 4*s.* 3*d.* per case, while the wholesale price was 10*s.*

24. Under the Primary Products Pools Act 1922–5, the Minister of Agriculture could, at the request of the Council of Agriculture or a representative number of growers of any commodity, proclaim his intention of creating a pool. Should fifty or more growers object, a poll had to be taken in which all growers of that commodity had a vote. If not less than two-thirds were in favour the Pool could be constituted. A Board elected by growers was then appointed to control the marketing of the produce and all agents had to send their produce to the Board or its authorised agents. The Council of Agriculture had the right to appoint the Chairman and a representative to every Pool Board.[1]

I, 9.
II, 7, 16, 18.

[1] The proved practical advantage of Pools is that they can ensure a more even flow of produce to the market and thus avoid slumps and prevent booms. Also they can help to bring about better methods of production and higher yields per acre through standardisation, and payment by results, etc. An important question is, of course, whether Pools are likely to be more expert with only one or two markets to watch, than a speculator who has several. It may happen sometimes that the annual amount per head paid to organised farmers is less than the amount paid annually to unorganised farmers in the past, but provided the loss in this direction is not great, it seems better that all should get a good average price than that some should get a low and some a high return, perhaps in inverse proportion to their efforts or merits. The first compulsory Pool in Queensland was the Wheat Pool of 1920. Queensland is not a large producer of wheat but the results are worth noting. One of its achievements was the abolition of the F.A.Q. system still prevalent in other States (see Part III, Chap. I, pars. 16 and 17), and the making of arrangements for the classification of wheat by qualified men, as soon as it was received from growers. The Pool makes its first payment soon after the delivery of the grain. Other payments are made from time to time out of the proceeds of the Pool until all the year's business has been finalised. Speculation is prevented, as all marketing, internal and external, is done under the authority of the Board. A 1924 pamphlet of the Department of Agriculture states: " The Board has now functioned successfully for four years, and has paid growers year after year, consider-

In 1926, the legislation was amended in order to make the organisation less unwieldy and yet responsive to the needs of producers. The Pools Act and Organisation Acts were amalgamated into one Statute, the District Councils were abolished, their functions being taken over by Marketing Boards, and the Council of Agriculture was reconstituted to contain fourteen representatives of producers, one elected by each Marketing Board. In the Report of the Director of Marketing for 1927, it is stated that the general policy of the Boards has been uniformly successful since the beginning of the scheme in 1922. It was estimated that during 1926–7 the net gain to producers (apart from sugar-cane-growers), as a result of organised marketing, exceeded a million pounds. The aim of the Queensland system of compulsory co-operation is to remove the weaknesses of voluntary co-operation and bring efficiency to primary production. It is intended to prevent the farmer getting the best of two worlds, the co-operative and the competitive, at the expense of his fellow-farmers and the community in general. It improves efficiency by removing unnecessary bargaining and instability, and encourages the producer to improve his methods. Similar developments are noticeable in other parts of the world and of the Commonwealth, but there seems to be no country which has organised its agriculture in such a representative way as Queensland,[1] and her activities have therefore been described in some detail. The Director of Marketing, as the result of his five years' experience, has come to the conclusion that wisely directed marketing organisation along Queens-

ably higher prices out of regulated marketing than those paid in any other state of the Commonwealth. That it has proved successful is shown by the indisputable fact that on the latest referendum being taken the growers of Queensland again voted for a further extension of three years, a majority of 88 per cent. deciding in the affirmative." In 1925–6, about 2 million bushels were received from growers and the price paid, 6*s*. 3$\frac{1}{2}$*d*. a bushel, was the highest since 1920. Pool expenditure including railage amounted to about 4$\frac{1}{2}$*d*. a bushel. The consumers in Queensland have apparently not suffered from the Pool, as in 1919 the retail price of flour was 4*s*. 4*d*. for 25 lb. or 7$\frac{1}{2}$*d*. above the average in all States. In 1926 it was 5*s*. 9$\frac{1}{2}$*d*., also 7$\frac{1}{2}$*d*. above the average.

[1] This was the comment passed by the officer in charge of agricultural matters at the League of Nations Office, Geneva. The main principles of the system are accepted by both political parties in the State.

land lines is in the interests of the community provided that Boards co-operate with existing channels of distribution and continually bear in mind the consumer's limited capacity to pay. Improvements in marketing conditions are definitely being brought about but time and sustained effort are still needed before the full advantages of organisation can be felt. Queensland's main products, apart from meat, are being marketed under the system, and in every case, Boards have continued to operate, at the wish of producers, after their first term of existence has expired. Financial accommodation for the Boards has been obtained from the Commonwealth Bank under the guarantee of the Queensland Government, which has not, however, had to meet any deficiencies so far.

25. It may be noted here that legislation has also been passed in Queensland to assist the formation of voluntary co-operative societies. The Primary Producers Co-operative Associations Act 1923 [1] provides facilities for effective co-operation among producers, and aims at preventing the use of the word co-operative in the title of concerns which are run on the basis of an ordinary limited company, and not upon the principle of a division of net profits among producers. Under the Act, all dividends on share capital are limited to 5 per cent.

II, 7 & 16.

26. In spite of the recent growth of compulsory organisation, voluntary co-operative associations of Australian producers still flourish. In 1926 there were in Australia, 319 voluntary producers' societies with a gross turnover of nearly £29 million, and a membership of 144,000. The more notable concerns are those in the Dairy and Citrus Fruit industries. All have been hampered through the disloyalty of members. In the Citrus Fruit industry there has been an organisation on a voluntary basis similar to those in Queensland and in America.[2] In the New South

[1] N.S.W. has a similar Act known as the Co-operation, Community Settlement and Credit Act 1923.

[2] District citrus associations are formed with capital provided by growers on an acreage basis. The associations own a packing and grading shed, sell supplies to members and assist and protect members in every way possible. District associations elect members to a central citrus association,

Wales Dairy industry 95 per cent. of butter produced is the output of co-operative factories and 75 per cent. is distributed by co-operative organisations. In the Dried Fruits industry, the Australian Dried Fruits Association still acts as a supervising body in the industry, and gives its attention to questions of grading, packing and farming methods.

27. A remarkable result of voluntary co-operation among Empire producers is the Overseas Farmers' Co-operative Federation, Ltd. This organisation consists of three large Co-operative bodies in three Dominions: they are the Australian Producers Wholesale Co-operative Federation Pty., Ltd., the Farmers' Co-operative Wholesale Federation (N.Z.), Ltd., and the Federated Farmers' Co-operative Association of South Africa, Ltd. Each body is a combination of affiliated co-operative associations in the countries concerned and has for its objects the marketing and distribution of produce exported and the combined purchase of certain supplies needed by the affiliated associations. The whole organisation is concerned with the sale, transport and insurance of dairy produce, wheat, fresh fruit, dried fruit, canned goods, meat, wool and general produce, as well as the importation of general merchandise. There are branches of the Federation in every Australian State. Producers have their own selling floor and are kept regularly posted with market and other information. A commission is charged for services. Any surplus after necessary expenses have been met is returned to the Federated bodies in proportion to their turnover. The Australian association, which at present deals with about five-sixths of the trade, had, in 1925–6, a turnover of £5½ million.

28. In the five years ending 1925–6 the total annual production of Australian agricultural, pastoral and dairying industries averaged £238 million.

The average annual production and export of the main primary products, between 1922 and 1926, was as follows :—

Product.	Value. Million £	Exports of Australian Products. Million £
Wool	60·7	49 (Greasy). 7·02 (Scoured). 1·2 (Tops).
Wheat	36·5	20·6 (Grain). 5·7 (Flour).
Hay and Green Forage	22·4	·1
Meat	—[1]	4·8 (Frozen beef, mutton and lamb). 3·0 (Sheep and cattle skins, etc.).[2]
Potatoes	2·7	—
Main farmyard and dairy products	44·5	9·3
Sugar-cane	6·3	1·6 (1925, £5·3 million).
Fresh fruit other than grapes	7·0	1·1 (Fresh fruit). ·6 (Preserved fruit and jams).
Grapes for drying	1·5	1·4 (Dried fruits).
Grapes for wine	1·4	·2 (Wine).
Market gardens	1·8	—
Estimated annual production and exports of agricultural, pastoral, dairying and farmyard industries	£238	£114

29. From the above figures it will be seen that it is in the less important branches of primary production that organisation is more complete. This is natural, as the more important have not had such difficulties to contend with, and also because organisation is easier in a smaller industry. Further, the larger middlemen tend to deal with the produce on more satisfactory terms than do the less substantial traders. Nevertheless, even in the Wool-growing industry there has been a movement towards control since the disappearance of war-time regulation. The British Australian Wool Realisation Association Ltd., which was formed in 1921 to prevent the market from being unduly upset by the

[1] No figures are available showing the value of meat produced in Australia. The slaughtering returns show that on the average 2·1 million cattle and 11·6 million sheep were killed each year during the five years ending 1924–5. The present relative importance of the home market is therefore fairly obvious. The annual value of pastoral products averaged £104·4 million.

[2] In 1925–6 nearly £3 million of rabbit and hare skins were exported from Australia.

transition from war to peace conditions, went into liquidation in 1926. The Chairman, Sir John Higgins, at the request of the Graziers' Federal Council of Australia, produced in 1925, a plan of stabilisation on the lines of B.A.W.R.A.[1] He pointed out that stabilisation meant not simply the artificial fixation of prices, but a minimum of slumps and booms. Among the arguments offered were the following :—

(1). As in America, the Tariff raises prices to the farmer above world level, while the farmer has to accept world prices for what he sells.[2]

(2). Growers could exercise authority in fixing reserves and allocations of wool based on statistics concerning world stocks, and consumption.

(3). Speculation could be reduced.

(4). Growers could obtain financial assistance as a body.

(5). The organisation might co-operate with the wool growers in South Africa and Argentina.

(6). The charges for such things as draft, transport and dumping could be made more uniform and more favourable to the grower. It was also pointed out that wool-growing is becoming a small man's industry and therefore it would be very difficult to get the 80,000 growers to act in unison without some assistance from the Government. "Some persons," Sir John remarked, "may condemn the proposal at the outset because it calls for a form of assistance from the Federal Government in respect to a financial guarantee and an authorisation to regulate wool export. Certainly there would be no request for actual money, but the fact cannot be overlooked that a guarantee is an obligation." It was pointed out that there are many precedents in Australian history for such a scheme.

The proposal was not assented to and so far no definite action has been taken. A prominent Australian business man and economist, in discussing Sir John Higgins' scheme,

[1] See *Melbourne Argus*, 24/6/25.

[2] In view of the large proportion of the world's wool supply which comes from Australia, this argument does not so much apply to the question of stabilisation as to that of the degree to which monopoly power should be exerted.

stated that "the student is left with the conviction that conflicting interests were the dominant forces in its rejection and that the Australian wool industry as a whole lost an opportunity which is unlikely to recur of creating a powerful instrument for its own advancement.[1] There has, however, been a recent inquiry into the Pastoral industry by a Federal Commission.

30. It is usually declared that behind all these plans there is no intention to harm the consumer, though in the same speech or article the two rather conflicting statements are frequently made that prices will ultimately be brought lower and that the standard of living of the producer must be maintained. It is desirable that prices should not be so low as to depress the standard of life of the producer. On the other hand, there is a risk that producers may, in self-pity, overlook the general welfare. The State representative on farmers' organisations could to some extent protect the general interests, but he may be only a technical expert with little or no sympathy for the consumer. Accordingly, in New South Wales, an interesting experiment has been attempted. The Government in 1926 called a conference of producers and consumers, to consider the problem of marketing agricultural products. About two hundred members took part. Two-thirds were producers who had been elected at local meetings to represent districts or industries and one-third were consumers from Local Government Associations, Consumers' Co-operative Societies, Friendly Societies, the Workers' Educational Association and Trade-union Organisations. There were besides some experts to act as advisers. The Department of Lands supplied the delegates with specially prepared booklets containing such facts, for example, as that producers received on the average only 46 per cent. of the retail price of certain foodstuffs.[2] The chief work of the conference was carried out by 17 committees; 13 of these consisted

I, 10.

[1] *Economic Record, Marketing Supplement,* 1928. E. C. Dyason, "B.A.W.R.A."

[2] Eleven main foodstuffs were chosen. Percentages varied from 75 per cent. for eggs and 27 per cent. for apples. (Mill, *Economic Record*, Nov. 1926.)

mainly of producers, though consumers had some representation on each. Four represented consumers only. The general opinion of the Conference was in favour of a form of collective marketing similar to that in Queensland, but with better representation of consumers.

In 1927 an Act was passed in New South Wales, concerned with the marketing of primary products, which provided for the setting up of Marketing Boards for various primary products after a ballot of producers had been taken, and two-thirds of the votes were in favour of the step. The Boards were to have upon them a representative of the consumers to be selected by the Governor. The newly-appointed Director of Marketing would be a member of each Board. A State Marketing Bureau was to encourage the formation of Boards, help them in their work and keep a record of production costs and movements of commodities. Apart from the influence exercised by the Director as a member of each Board, the organisations would not be subject to Government interference. With the change in the Government the Act was amended. The sections relating to consumers' representation were removed, and the functions of the Director of Marketing were transferred to a Minister. A number of improvements were made in the structure of the organisations.

31. In Part II it was suggested that not only must the interests of the individual and of the community be brought nearer together, but that the tendency of the individual to under-estimate the return from savings must also be reduced as far as possible. In Australia, the control of saving in agriculture is attempted in all the ways mentioned: first, through a better organisation of credit; secondly, through the encouragement of investment in socially desirable resources; and thirdly, through the prevention of waste of existing wealth.

II, 4–9.

32. Loans to small farmers are usually profitable, even to an individual lender,[1] if they are granted for a reasonably

[1] Banks cannot, however, tie up too much of their capital in long-term loans, and cannot lend money to settlers who have no complete title to their land. They also tend to lend money on what the settler has done and not upon what he is going to do.

II, 4.

long period, but in Australia governments have found it necessary to improve the organisation of credit to help settlers acquire land, remove encumbrances from holdings, purchase stock, erect buildings and make other improvements.[1] In some States help is also given towards the erection of cold stores or fruit canneries. Loans may be obtained through the Commonwealth Bank or through the Savings or Agricultural Banks in the States. Under the Rural Credits Act of 1925, a department was set up in the Commonwealth Bank for the purpose of assisting the granting of *short-term* credits to primary producers on the security of their produce. The Rural Credits Department, whose functions are quite separate from those of the other Departments in the Bank, obtains its funds from three sources: (1) from loans by the Commonwealth Treasury up to £3 million; (2) from the net annual profits of the Note Issue Department of the Commonwealth Bank (25 per cent. of these profits up to a maximum of £2 million); (3) from the issue of debentures by the Bank to an amount that will not exceed the amounts advanced on primary produce by the Department, or four times the amounts from the first two sources plus half the accumulated profits of the Department, whichever is the greater. No advance may be for longer than a year and the dates for redemption of debentures must coincide as far as possible with the date at which advances are repaid. The Department may make advances to the Commonwealth Bank, to Co-operative Associations or to certain bodies specified by proclamation. The Act, provided its administration is successful, will guide savings into productive sources. It may do little to increase the total funds available, but it will enable short-period loans to be granted at a time when they are most wanted. Half of the profits is to be placed to reserves and the other

[1] The following is an extract from an account of the Australian position as seen by the Director of the Queensland Producers' Association in 1925 after he had discussed the matter with the present Secretary of State for the Dominions. (Report 1925–6.) "In older settled countries the farmers' capital is invested in stocking and cropping his farm, but the Australian agriculturist in a new settlement area has literally to carve his home out of the bush. Under Australian conditions the capital is required to make the farm as well as to run it as a business enterprise."

half to create a fund for the promotion of primary production. On June 30, 1928, the capital account of the Department stood at £842,000. The Reserve Fund and Development Fund each stood at about £30,000.

Assistance is also granted through the Export Guarantee Act 1924–5, under which the Treasurer may guarantee advances to finance the marketing of primary produce up to 80 per cent. of the value of the produce. By September 1927, almost £¼ million had been guaranteed.

33. Much of the assistance given to agriculture is carried on through the Markets and Migration Department. This Department is concerned with matters connected with the marketing of Australian products overseas. It supervises and is assisted by the various Export Control Boards, the Australian Fruit, Meat and Dairy Councils and the Commonwealth Board of Trade.[1] It also administers Federal Acts granting financial assistance to primary industries, collects and disseminates industrial and commercial information, and controls trade publicity in the United Kingdom and elsewhere.[2]

II, 17.

34. *Long-term* loans are also granted by the State. Under the Agricultural Bank Act of Queensland, for example, individual advances, up to £1,700, may be made to primary producers. No advance may normally exceed four-fifths of the fair estimated value of the holding with existing and proposed improvements. Loans up to £500 may be granted to the full value of certain kinds of improvements. During the first 5 years, only interest at 5 per cent. need be paid. After the expiration of that period the loan, with interest, is repayable within 20 years in half-yearly instalments of £4 0*s.* 3*d.* for every hundred pounds advanced. The Bank may also make advances to a co-operative society covering up to two-thirds the cost of construction of works for the manufacture and

II, 4.

[1] The Board of Trade is a body consisting of certain Ministers, business men and primary producers. Its functions are to advise the Federal Government on matters affecting trade, commerce and industry in the Commonwealth.

[2] For a fuller account of the Department's functions, see the *Marketing Supplement of the Economic Record*, 1928.

storage of primary produce. (The maximum loan may not exceed £1,700.) At least two-thirds of the capital in such a concern must be held by primary producers, and no greater dividend than 6 per cent. may be declared before an advance has been repaid. Payment may be spread over 16 years and interest of 5 per cent. is charged.

Similar institutions exist in all Australian States. The Rural Bank Department of the New South Wales Savings Bank, the Closer Settlement Board and State Savings Bank of Victoria (particularly the Crédit Foncier Dept.), the State Bank of South Australia, the Agricultural Bank of Western Australia, and the Agricultural Bank of Tasmania.[1] During 1925–6 nearly £8 million was advanced to settlers in Australia. The total amount advanced up to June 30, 1926, was 121·6 million.[2]

35. The Commonwealth and State Savings Banks can definitely be said to help a better organisation of credit and to increase the funds available for the primary producer. In 1927, Savings Bank deposits amounted to £205 million. The Banks do not grant facilities for the drawing of cheques, but unlike ordinary banks they offer all the advantages of a current account without charge and allow interest on the minimum monthly balance. All the banks have an agreement under which money deposited in one State may be drawn out in another. The interest varies from $3\frac{1}{2}$ to $4\frac{1}{2}$ per cent. on small amounts. In

II, 4.

[1] The following are the main Acts governing loans to settlers: *N.S.W.*—The Government Savings Bank Act; *Victoria*—State Savings Bank Act; Closer Settlement Act; *Queensland*—Agricultural Bank Act 1923; *S. Australia*—State Bank Act; *Tasmania*—State Advances Act. In all States there are Discharged Soldiers' Settlement Acts, under which nearly one-third of the total advances have been made.

[2] The advances made during 1925–6 were as follows:

N.S.W.	£2·4 million.
Victoria	1·4 ,,
Queensland	·5 ,,
S. Australia	1·8 ,,
W. Australia	1·7 ,,
Tasmania	·03 ,,
N. Territory	·002 ,,
	7·9

(*See Commonwealth Year Book.*)

1915–16, on the average almost half the population had savings bank accounts. By 1926–7 the average had risen to almost three-quarters. The average amount of money per head of the population invested in savings banks rose from about £19½ to £33 in 1927 (or at 1913 prices has slightly increased).

36. The Migration Agreement between Australia and Great Britain provides for what is considered to be socially desirable investments. The Commonwealth has agreed to arrange with the State Governments for suitable areas to be made available for settlement and for such public works to be carried out as will increase development. These are classified under such headings as the acquisition and clearing of land ; construction of roads ; developmental railways ; hydro-electric and water conservation works, and rural factories ; afforestation ; and advances to settlers. The Commonwealth Government will raise the necessary money and will lend it to State Governments at a rate not exceeding 2 per cent. for the first five years and 2½ per cent. for the succeeding five years. For every £750,000 spent on approved development, Great Britain will provide £130,000 until £7 million has been so provided. By 1927, Government schemes costing nearly £7 million had been authorised by the Governments concerned.

II, 5.

37. The Governments also exercise some control over saving by the encouragement of investment in socially desirable resources, and a certain proportion of the proceeds of public borrowings are used to assist primary production. The public debt of Australia includes that incurred by the Commonwealth and the States. Of the Commonwealth loan expenditure of the past few years little went to assist primary production directly. State loan expenditure has been mainly on railways and tramways, but large amounts have been spent by the States on water conservation and advances to settlers. The relative importance of this and other items of State loan expenditure directly affecting agriculture up to June 30, 1926, was as follows:

II, 4.

Railways and tramways	47·72 per cent.
Water supply, sewerage and water conservation	14·57 per cent.
Immigration	·68 per cent.
Land purchases for settlement and advances to settlers	12·46 per cent.
Rabbit-proof fences	·27 per cent.

In order to prevent undue competition and clashes in the raising of loans within and outside Australia, the Australian Loan Council (consisting of the Commonwealth and State Treasurers) was formed in 1924. Between the financial years 1924–5 and 1927-8, conversion, redemption and developmental loans exceeding two hundred and fifty million pounds were floated by the Commonwealth in Australia, London and New York. It is claimed that as a result of this combined policy, Australia's credit is enhanced and her borrowings cause little disturbance to the money market. It is also claimed that interest rates will be kept down through the selection of the most favourable time for a loan and the absence of competition.[1]

38. In addition to improving the organisation of credit and encouraging investment in socially desirable resources, some of the effects of lack of vision in the individual may be overcome by the organised "conservation" of existing resources. One example in Australia is the enforcement of laws for the protection of animals and birds. More important is the preservation of forests. Two functions of forests are the provision of timber and the protection of the soil from denudation. In all Australian States, Forestry Departments carry out the normal activities of systematic cutting, thinning and ring-barking, and the removal of debris. They aim at the prevention of diseases and pests and attempt to lessen fires by making fire breaks. Forestry Acts enable the dedication of land to forest purposes. In 1920, at an Inter-State Conference, it was decided that 24½ million acres of good

II, 9.

[1] Professor Copland, in the May 1926 number of the *Economic Record*, advocates more detailed investigation of the amount, source and expenditure of the national income. On June 30, 1926, the net public debt of Australia amounted to £1,012 million or about £168 per head. Of recent years this has been raised mainly in Australia and the United Kingdom, though by 1928 the Commonwealth had raised about £34 million in New York.

forest land should be reserved permanently in Australia. By June 1926, the States had reserved over 20 million acres, though a large part of the area could not be said to contain saleable timber.[1] The following statements supply a practical example of the need for "conservation" and the difficulties presented by anti-social preferences. "A difficulty common to all States is that the commercial forest area falls within the arable belt, and there is a tendency on the part of those responsible for land settlement to regard all land as potentially agricultural, and to resist attempts made to reserve purely forest land. At the root of the trouble is the inability to realise that forestry is agriculture on a long rotation, and that much land wholly unfit for agriculture is suitable for forestry. Moreover the wait for returns is so long that it fails to interest the average man and his Parliamentary representative."[2] Again, "though the friends of the forest may succeed over and over again in preserving it, the attack is always re-opened, whereas let its opponents but once win the day and the forest is destroyed for all time."[3]

The Forest Departments are increasing their activities, and a Division of Forest Products Research has recently been established by the Council for Scientific and Industrial Research, but there is urgent necessity for the co-ordination of forest control and for the further provision of education in forestry.[4] An Imperial Forestry Conference was held in Australia and New Zealand during 1928.

39. To sum up, it may be said that such control of primary production as is here outlined, is sound, only so long as its costs are not excessive. These have yet to be examined in detail by some competent authority. The growth of

[1] A considerable part of the lands was inaccessible or had been cut over.

[2] "Forestry in Australia," C. E. Lane Poole, Commonwealth Forestry Adviser (*Commonwealth Year Book* 1926).

[3] Report of Victoria Forestry Commissioner, 1924–5.

[4] One-third of the forest fires in Victoria are said to be started deliberately. An interesting piece of legislation is the Western Australian Bush Fires Act, which prohibits the lighting of fires in certain areas except under permit. This Act, with well-organised forest control, resulted in 1926 in a negligible loss of forest area to the State. Queensland has also recently passed legislation dealing with forest fires.

experience will enable greater co-ordination in policies between States and between the various controlling bodies such as the Development and Migration Commission, the Council for Scientific and Industrial Research, the Department of Markets and Migration, the Lands Department, the Departments of Agriculture and the large co-operative organisations. Assistance to the primary producer gives him vital information concerning his own industry, and if it is only granted in return for social effort on his part it should encourage an alertness which will increase the welfare of the community. The effects upon the distribution of wealth should obviously be good, and a great deal of the latent talent of the small-scale producer can be made effective if control is administered efficiently. The present situation offers, therefore, no foundation for an advocate of a negative policy, and where complaints arise, expert investigation and publicity, followed by adjustments, appear to be the best remedy.

CHAPTER VII

PARTIAL CONTROL OF AN INDUSTRY

1. General. 2. Banking control. 3. Assistance to the formation of a Paper-pulp Industry. 4. Control over the Wireless Industry. 5. Increasing insurance facilities. Proposed National Insurance Fund. 6. Public Administration of Estates.

1. There are several methods used by Australian Governments to prevent economic friction from obstructing the socially desirable operation of certain industries. It is not possible here to state which particular kind of friction—ignorance, inertia, anti-social preferences, indivisibility, etc.—each experiment aims to overcome. Such a statement would require a much greater study of the methods used than has been carried out at present, and the object of this Part is rather to show what experiments are being made in Australia and to suggest a line of reasoning from which their results can be judged, than to attempt at detailed analysis of the experiments themselves. Here, as elsewhere, final opinion would depend upon the extent to which the various kinds of economic friction have been increased or decreased.

I & II.

2. The most interesting examples of partial control by the State over single industries, apart from monopolies, are to be found in Banking, the Paper-pulp Industry, Wireless communication, and Insurance.

An efficient monetary system would, it is thought by some economists, bring economic salvation. Whether or not such a view-point is correct, sound banking legislation and control is vital to the economic well-being of a nation. Banking is a specialised and technical subject. It therefore seems desirable only to mention briefly the extent of control in Australia to-day.

To a large degree the monetary situation in Australia is controlled by the Governor, the Secretary to the Treasury, and six Directors of the Commonwealth Bank of Australia, which was founded in 1911. The Directors must be, or have been, actively engaged in agriculture, commerce, finance or industry.[1] Owing to the credit of the Government behind the institution very little financial assistance was needed to start operations. The Bank's most important function is the control of the note issue. The removal of this from political interests is a partial safeguard against mishandling of the currency in times of political stress. The nominal capital of the Bank is £20 million, though in 1928 the capital account only showed an amount of four millions. All kinds of banking business are carried out. The Savings Bank Department had, in June 1928, deposits amounting to £48 million, and the Rural Credits Department a capital of about £842,000. Under the Commonwealth Bank Act 1911–25, the Directors must publish, periodically, the rates at which the Bank will discount and rediscount bills of exchange; also, half the profit on banking business has to be placed in a Reserve Fund, which in 1927 amounted to about £1·4 million. The remainder of the profits are transferred to the National Debt Sinking Fund. One quarter of the profits of the Note Issue Department must be paid over to the Rural Credits Department until two million pounds have been so transferred; the remaining three-quarters is handed over to the Commonwealth Treasury. A monthly statement is issued by the Department showing the value of Australian notes in circulation and the amount of gold held by the Department. The aggregate net profits since the foundation of the Bank till June 1926 amounted to about £5½ million. For the half-year ending June 30, 1928, approximate profits from banking business were £171,000; from the Note Issue Department, £594,000; and from the Rural Credits Department, £22,000.

The aim of the legislation of 1924 was to enable the

[1] They must not be engaged in business which is wholly or mainly that of banking. There is also a Board of Advice, which sits in London.

Commonwealth Bank to act as a central bank. It cannot be said to fulfil these functions yet, but the Federal Government has recently sought advice from the Comptroller of the Bank of England as to the best means of establishing a satisfactory Central Reserve system. "Resulting from this a very considerable amount of discussion for the formulation of a policy has proceeded, and it is safe to say that much light has been thrown on this subject and its potentialities in regard to Australian Banking." Also "some progress towards this objective has been accomplished and the establishment of this system is not unfavourably viewed in Banking circles."[1] In some cities, an informal association of banks jointly control the daily clearance of cheques, and regulate the rates of discount and interest.[2] The encouragement to the accumulation of capital, given by the Government, and the Commonwealth and State Savings Banks, has been mentioned elsewhere.[3]

3. The British Treasury has in the past guaranteed the payment of principal and interest upon certain loans raised by business firms, and the British Board of Trade has granted credits or made guarantees for certain export transactions. In Australia, Governments tend to adopt a similar though somewhat narrower policy. A recent example is the encouragement offered by the Tasmanian Government, since 1926, to the promoters of a proposed wood-pulp and paper industry. A large industrial concern had been expected to supply a quarter of a million pounds of capital to the new company, but as they considered the Tariff protection offered by the Federal Government was not sufficiently high, they withdrew their offer. The promoters thereupon asked help from the Government, who agreed to guarantee interest on £¼ million worth of debentures for twenty years, at a rate not exceeding that paid on money lent to the State on local inscribed stock at the time the debentures are issued. The total capital of the new industry was to be

[1] Report of Directors of Commonwealth Bank, August 1928.

[2] See *Australian Banking Currency and Exchange* (Alexander Hamilton, Institute of Australia Ltd., Sydney); also *Australian Insurance and Banking Record* (Monthly), Melbourne.

[3] Part III, Chap. VI, pars. 31–5.

at least £1 million. The promoter was to pay annually, into a sinking fund, an amount which at compound interest would be sufficient to liquidate the debentures during their currency. The company had hoped to start operations at Burnie in the North-West. The timber was to be obtained from the neighbouring hills, and as the hard-woods[1] became exhausted, soft-wood trees were to be planted. The scale of output would at first be about 100 tons of paper a day. As soon as possible this was to be increased to 400 tons, sufficient for all Australian demands. About 400 men would then be employed, and power would be supplied by the State electricity scheme. It was hoped that an artificial silk industry and other by-product industries would follow. The Government granted water rights and conditional timber rights. An interesting feature of the scheme was that in addition to amounts payable by the industry under the State Forestry Acts, a royalty, which fluctuated from one to two shillings according to the profits of the industry, was to be paid to the Conservator of Forests, on every cord of timber cut. The industry has not yet started, as the remainder of the capital could not be obtained. A smaller concern is, however, beginning operations in the south, at Kermandie, and has received some assistance.[2] Certain guarantees have also been given to an Italian firm which is shortly to undertake the manufacture of artificial silk in Tasmania.

A Report upon the possibilities of founding an industry for the manufacture of newsprint from Australian raw material was issued by the Council of Scientific and Industrial Research in 1927. If a bounty of £4 a ton were paid on the product, with a duty of the same amount to be deferred until the industry was producing a substantial proportion of Australian requirements, the prospects of ultimate success, it was considered, would be very favourable. In view of the growing shortage of timber, the manufacture of paper from hard-woods is desirable. The initial cost, however, appears to be heavy.

[1] This was the first attempt to manufacture paper commercially from Australian hard-woods.

[2] Kermandie Wood Pulp and Paper Industry Act 1926.

4. The Australian Wireless industry is partially State-controlled. Wireless communication is managed chiefly by the Postmaster-General, the Navy, and by Amalgamated Wireless (Australasia), Ltd., in which the Commonwealth Government holds half of the shares plus one extra share to give it a controlling interest. The Beam services between Australia and Europe which began early in 1927 are carried out by Amalgamated Wireless Ltd., under agreement with the Federal Government. In 1927, a Royal Commission was appointed to inquire into Wireless Communication in the Commonwealth. Its recommendations are important. The Commission considered that the existence of cable companies ought to be preserved. The nationalisation of the Beam Service was not thought necessary as the Government influence in Amalgamated Wireless Ltd. should safeguard the interests of the community. It was considered, however, that certain demands made by Amalgamated Wireless Ltd., upon broadcasting companies and radio dealers for certain rights, were excessive. Further, the refusal of the company to pay to the Government the same terminal dues as cable companies was unreasonable. It was suggested that the company should be asked to reduce their demands and pay the dues. If it refused, the Federal Government should acquire the remainder of the shares and thus obtain complete control. Also it was "vital to the interests of the Commonwealth" that control of Land and Coastal Stations should be resumed by a Government department "at the earliest possible opportunity." For, it was pointed out, "the interests of Amalgamated Wireless (Australasia), Ltd., are primarily commercial. The policy of the Postmaster-General's Department is public service at the lowest cost." It was further suggested that an Australian Wireless Committee should be formed. This should consist of the Director of Postal Services as Chairman, an officer competent to deal with wireless communication of all kinds to be known as a Wireless Services Officer, and a Broadcasting Officer. The Chairman should help to co-ordinate and supervise all wireless and broadcasting activities in the Common-

II, 10–20.

wealth, and should during each year call a conference of Broadcasting Stations, the Wireless Institute of Australia, radio dealers and manufacturers and licensed listeners, in order to discuss wireless developments. The aim of these recommendations appears to be that of retaining the incentive and experience of private enterprise, and at the same time ensuring that the interest of the community is not overlooked.[1]

5. As in many other countries, a certain amount of control over the activities of insurance companies is exercised by the various States in Australia.[2] This is mainly concerned with compulsory registration, deposits with the Government, the making of returns, and the separation of funds. Mention was made in Chapter IV of the growth of a marked degree of control over Workers' Compensation, and Unemployment Insurance. Some account of the activities of the State Insurance Office in Queensland is given in Chapter VIII. The possible future growth of control can be estimated from the First Report of the Commonwealth Royal Commission on National Insurance, 1925. In addition to its inquiry into unemployment and Workmen's Compensation, the Commission had to inquire into methods for making provision against casual sickness, permanent invalidity and old age, and for securing effective assistance to mothers. The introduction of an insurance scheme on these lines involves more than the protection of human capital in industry and covers risks which occur outside industry altogether. It is really supplementary to the work of ordinary insurance companies. The wage-earner, the Commission pointed out, cannot afford to insure against these risks. The Commonwealth Government pays old age and invalid pensions as well as a small maternity allowance,[3] but it was estimated that less than a third of

[1] In July 1928 the Prime Minister proposed that wireless broadcasting should be placed under direct control of the Federal Government, all "A" class broadcasting stations should be owned by the Commonwealth, and a Broadcasting Advisory Committee should be formed.

[2] See Year Book, No. 18, 1925, Chap. XXVII.

[3] In 1928 the Commonwealth Government paid about £9·7 million in Invalid and Old Age Pensions to about 195,000 persons. Maternity allowances amounting to £·68 million were paid to 136,000 mothers.

wage and salary earners had made voluntary efforts to provide for themselves through mutual associations. The majority, although they had a constant anxiety that the consequences of these risks might be disastrous, had failed either through financial inability, lack of thrift and foresight, or other causes, to make provision against them. The multiplicity of insurance organisations throughout the Commonwealth and the diversity of purposes for which they had been created had brought about overlapping, duplication, unnecessary competition, waste of effort and a great lack of co-ordination and uniformity. The Commission recommended, therefore, the setting up of a compulsory national insurance system which should, however, make use of existing voluntary mutual associations.

The scheme suggested involved two organisations, one for insurance against risks, through the establishment of a National Insurance Fund, and one for the prevention of risks, through a National Health Scheme. The Insurance Fund would be contributed to by employers, employees and the State [1] and would provide for : (*a*) Sickness benefits of 30*s*. a week to all adult members for the first six months of sickness. (*b*) Invalidity benefit of 20*s*. a week to be paid during incapacity to work after that period. (*c*) Instead of the existing lump-sum payment of £5, to mothers, a maternity benefit of 20*s*. a week for two weeks preceding confinement and for the following four weeks, to be paid by the Federal Government, and "measures should be instituted to provide for adequate medical attendance at every case of confinement." (*d*) An old age pension of 20*s*. a week to insured men over 65 and to insured women over 60. (*e*) A payment of £50 for funeral expenses. (*f*) Supplementary benefits of 5*s*. a week to be paid to members during sickness, accident or old age for every dependent child under 16. Membership would be compulsory for all wage and salary earners in Australia over 16. The number of those who would be exempted from a scheme which laid

[1] The Fund would be administered by a Central organisation with representatives of contributors, and district officers with local advisory committees representing existing mutual benefit societies, employers' associations, medical practitioners and others.

down reasonable limits of membership would be relatively small and it was considered simpler to make the scheme inclusive in this way. It was recommended that arrangements should be made for other voluntary members and for exemption to those insured under as favourable terms elsewhere. It was suggested that workers' compensation legislation might also be included under the National Insurance Fund Scheme. The weekly cost of providing Invalidity, Sickness, Old Age, Funeral and Children's Benefits, would be as follows:

Age at entry into scheme	16		25		35		45	
	Men.	Women.	Men.	Women.	Men.	Women.	Men.	Women.
	1/11	2/5	2/6	3/7	3/10	6/1	7/–	12/6

The total funds were to be invested in works which extended the social institutions available to insured persons.

In referring to the inauguration of a National Health Scheme, the Report contains suggestions rather than positive recommendations. The functions of the Commonwealth and State Health Departments might be enlarged to ensure the provision of adequate medical services. The supervision of the supply of drugs and chemicals was, it was considered, also a matter for the Health Department. The maintenance of hospitals under a voluntary system was thought to be preferable to provision for their complete maintenance out of taxation, but it was recommended that better maternity hospital accommodation should be provided, and that special wards should be available in public hospitals for those unable to pay for treatment in private hospitals and unwilling to enter public hospitals. In these wards they could be treated by their own doctors at comparatively low fees, the remainder of the expenses being met by a Government subsidy. Further suggestions were the extension of Government laboratories, larger subsidies to nursing associations and ambulance transport services and greater collaboration between health authorities and hospitals. It was also suggested that more control should be exercised over health in industry and that applicants for work should undergo an examination to show their physical fitness to perform it.[1]

[1] See *International Labour Review*, Jan. 1926.

Apart from the payment of compensation to widows of workers who have died through industrial accident or industrial disease, the problem of providing against the economic effects of widowhood have only been attempted in practice by one State. In 1925, New South Wales passed a Widows' Pensions Act which provides for non-contributory pensions to widows with dependent children. The maximum payment made is £1 a week to the widow and 10*s.* a week for each child under 14. £1 per annum is deducted from this amount for every pound by which the widow's *net* annual income exceeds £78.[1] The Insurance Commission suggested that after the General Insurance Scheme, which they recommended, had been adopted, the Commonwealth Government should consider the institution of widows' and orphans' pensions.

A Bill dealing with National Insurance will shortly be brought before the Commonwealth Parliament by the Government.

6. As in Great Britain, Governments in Australia have found it desirable to carry out the business of administering estates in competition with, or as a supplement to, the activities of private enterprise. In New South Wales, for example, the Public Trustee handled between 1914 and 1925, about 30,000 estates with a total value of over seven million pounds. Although a small profit was made on these operations, the aim of the Trustee is to charge fees and commission sufficient only to cover working expenses.

In all the examples mentioned in this chapter, a partial control of individual industries appears sufficient to safeguard the community against the shortcomings of private enterprise. Where the element of monopoly is present to an undue degree, other methods are needed. These are dealt with in the next chapter.

[1] For the purpose of calculating net income, house rent paid (up to an amount of £78 per annum) and certain other amounts are deducted from income.

CHAPTER VIII

CONTROL OF MONOPOLY

1. Few experiments in first method of control. 2 and 3. Or in the third, 4. Except for " anti-dumping " legislation. 5. Australia has made greater use of the second method, the encouragement of co-operation among those feeling the effects of monopoly more directly. Encouragement of producers' associations. 6. Encouragement of competition against overseas monopolies, by means of tariffs and bounties. 7. State trading enterprises. Control in the oil industry. 8. Queensland experiments. 9. Queensland State Insurance Office. 10. New South Wales experiments. 11. The Shipping Monopoly. 12. Small degree of control over Shipping Monopoly. 13. Interference with contracts. Price control in New South Wales. 14. And in Queensland. 15. All economic control methods interfere with contracts. 16. Australia's success greater in positive control of monopolies.

1. Mention has been made of four types of methods by which monopoly can be controlled: obstruction to combination, assistance to competition, the discouragement of certain socially undesirable activities, and direct interference with the terms of certain contracts. In all methods publicity fills an important part. As far as the first and third of these types are concerned, Australia has not been much more successful than other countries.

III.

The terms of reference of the Inter-State Commerce Commission[1] were very broad and a considerable number of facts could have been supplied upon which a control of monopoly could be based, but little effective action was taken to provide this information. When in 1921 the Tariff Board came into existence, it was laid down that the Minister must refer to the Board any complaints that a manufacturer is taking undue advantage of the protection afforded him by the Tariff; in particular by charging exorbitant prices, acting in restraint of trade to

[1] See Part III, Chap. III, par. 11.

the detriment of the public or acting in a manner which results in unnecessarily high prices being charged to the consumer for his goods. Public inquiries by the Board into complaints, and an account of their findings in their Annual Report would do much to show the more obvious effects of monopoly in Australia, provided the Board had the opportunity of carrying out its work efficiently. Complaints are rare, however, and little mention is made of them in the Reports. The obstacles which prevent appeals from being made to the Minister are probably similar to those which hinder mobility of resources.

2. In the prevention of combination, cut-throat competition, and of unfair practices inside the Tariff wall, little new ground has been broken. The Australian Industries Preservation Acts of 1906 and 1910 contain clauses based on the Sherman Act of U.S.A., and also represent an effort to tackle the problem in a new way. Under the Acts, any person is guilty of an offence who contracts or participates in a commercial combination which (*a*) restrains or intends to restrain trade or commerce in an unreasonable manner; (*b*) injures or intends to injure any Australian industry through "unfair" competition. The Acts make an attempt to define "unfair" competition. If the Comptroller-General of Customs believes that an offence has been committed, he may summon witnesses to answer questions or produce documents. Two cases were brought before the High Court, under the Act. Both failed, and no recent steps have been taken to render this type of regulation more effective. The first disadvantage of the Acts is that owing to the Commonwealth Constitution they can only apply to trade between States or with other countries. Secondly, there is no permanent body in existence whose business it is to start proceedings and inquiry. Such a body is clearly necessary and should have judicial power to enable it to enforce decisions based upon the results of its inquiry. The ordinary Court of Law would find it extremely difficult to decide the motives of the accused, to define, from the practical point of view, what is or is not "unfair" competition, and to apply a sufficiently

III, 5 & 6.

flexible form of regulation to the monopoly. It was pointed out before the War, as a result of Australian experience, that anti-trust legislation involves " powers of negotiation with business concerns, powers of mere investigation, powers of calling upon a trust to revise its scheme of prices, powers of making specific recommendations to the Legislature, and powers of dissolving a repressive monopoly under conditions which shall adequately secure the purposes which the Legislature has in view." [1] The High Court, in spite of its wide powers, does not appear to be the most suitable body for this kind of work.[1]

3. New South Wales recently made further attempts to restrict combination but the first results have been small though interesting. Under the Monopolies Act of 1923, the Attorney-General has power to prosecute the directors of a combine, which after inquiry by the Industrial Commission is found to be detrimental to the public. In 1924, representatives of the Roofing Tiles industry were summoned before the Board of Trade, who then were responsible for administering the Act, and after a detailed examination it was decided that a monopolistic combination existed between certain firms, and that " reasonable regard being had to the interests of producers, distributors, and consumers," the combination was " detrimental to the public." The Board recommended that copies of all agreements by manufacturers or distributors, which aimed at controlling the supply or prices of commodities, should be lodged with the Attorney-General, and that associations when formed should be compelled to keep proper records of their transactions. In 1925 legal proceedings were taken against the industry. The State Attorney-General asked the Equity Court for a declaration that defendants had committed breaches of the Act, and for an injunction. In November 1925,[2] the Attorney-General announced to the Court that the defendants had consented to a decree under the terms of which Roofing

III, 5.

[1] *Prevention and Control of Monopolies*, p. 91. W. Jethro Brown. (John Murray.)

[2] See *Sydney Morning Herald*, November 5, 1925.

Tiles Ltd. was to be dissolved and an undertaking given that the agreement between the defendants was ended. An injunction was made against them to prevent them from carrying on the alleged practices in breach of the Monopolies Act. Consent to the decree was given without any admission of fact by any of the defendants. It would be interesting to discover the effect of this decree upon the production and prices of tiles.

In the Queensland Profiteering Prevention Act of 1920 there are clauses which aim at the prevention of combination ; they are, however, not used in practice. Restriction upon combination may therefore be said to be proceeding somewhat slowly in Australia, though not more slowly than in other parts of the world, and Professor Heaton's remark "that local and overseas trusts or honourable understandings have effectively secured control over nearly every branch of production and sale," remains true.[1]

4. The only legislation in Australia that has helped very much to prevent "unfair competition," is that which applies to imports. The Industries Preservation Act of 1921–2 is an attempt to overcome "unfair" overseas competition, especially from countries with depreciated currencies, and also to ensure that the United Kingdom obtains the benefits of the Preference laid down in the Tariff. The Act provides for the collection of a "dumping duty" upon imports of a kind produced in Australia which, after an inquiry and report by the Tariff Board, the Minister of Customs is satisfied are being sold to an importer in Australia at an export price which is less than the fair market value of the goods at the time of shipment, to the detriment of an Australian industry. The amount of the duty is the difference between the fair market value of goods at the time of shipment and the export price. The Minister may also impose a "dumping below cost duty," a "dumping consignment duty," a "dumping freight duty" and a "dumping exchange duty." Other duties provided for in the Act are a "dumping preference duty" and the "dumped materials duty." The first is to protect the preference

III, 6.

[1] Heaton, *Modern Economic History*, 2nd Edition, p. 101.

granted to the United Kingdom, when goods of a class produced there are exported to Australia from a country with a depreciated currency. The amount of the duty represents "the difference between the fair market value in the United Kingdom and the export price." The "dumped materials duty" is imposed if, after inquiry and report by the Tariff Board, the Minister is satisfied that goods are being sold to an importer in Australia, which were manufactured from material supplied from any country whose currency has depreciated in comparison with the currency of the country to which the material was supplied, and that they are being sold to an importer in Australia below the price at which they could have been made in the manufacturing country from that country's material, allowing for a reasonable profit. The stabilisation of European currencies has, of course rendered this Act less important, but between 1921 and 1926, 300 notices were gazetted, the majority being concerned with "dumping exchange duties" and "dumping preference duties." Half of these refer to goods imported from Germany, but notices have been issued affecting goods from 17 different countries. 150 types of commodity have been dealt with.[1] The Board reported in 1924 that although there were frequent objections to the working of the Act, any interested party could give evidence, and "it was found over and over again that opposition to the gazettal from users and others practically vanished when the whole facts were fully explained and understood." The main difficulty of the Act appears to be the uncertainty which it sometimes causes in the outlook of individual business men.

III, 5.

5. The fourth method suggested, which is the encouragement of co-operation among those who feel the effects of monopoly more directly, has been carried further in Australia than in Great Britain or U.S.A. One of the functions of trade unionism is to prevent the

[1] It should be noted also that an Act has been on the Statute Book since 1905, which gives power to compel the placing of a proper description on certain imports or exports. The prescribed imports include food and drink, clothes, medicines, jewellery, seeds and manures. See Commerce (Trade Descriptions) Act 1905–26.

use of monopoly power by employers in their dealings with their workers. The principle of preference to unionists which is embodied in a large number of Arbitration Court awards, tends to encourage the existence of unions, provided they comply with the conditions of their awards.[1] In agriculture, the assistance given to associations of producers [2] diminishes the monopoly power which distributors in Australia or abroad can exert over the individual farmer. There is the risk, which is to some extent being appreciated by the general public, that these associations, once having defeated the monopolist, may become autocratic or inefficient. The control over the disposal of their labour or produce which they seek may, when obtained, be exercised against the best interests of the community. Taking Australian industry *as a whole*, however, this stage is not likely to be reached for some time yet, and if reasonable conditions for the protection of the public have to be fulfilled before assistance is given, control of unions and of the Control Boards should not prove unreasonably difficult.

6. By means of a tariff or bounty the effects of overseas monopolies can be substantially discounted. For example, the Tariff Board considers that the farmer obtains some of his machinery cheaper through the existence of factories in Australia, which counter the bad effects of monopolies abroad.[3] The anti-dumping duties have to a small degree prevented damage to certain Australian industries through "unfair competition." Control of monopoly is one of the main problems which a Tariff Board has to face, but the mere reference to "huge foreign trusts" is not sufficient to show that duties are

III, 5.

[1] See Chap. IV. [2] See Chap. VI.

[3] A simple example of the temporary effect of insufficient competition was shown in 1925. Certain cheap classics retailed in London at 6*d*. each, were being sold in some parts of Australia at "1*s*. 6*d*. to clear." No doubt similar examples exist in other industries but are not so easy to distinguish. It is not suggested that the remedy here is a duty, for its effects in other directions would be too damaging. But clearly the existence of a large book publishing industry in Australia would help to prevent such unreasonable prices. Further, the excessive price is probably not wholly due to the monopoly, but also to the other causes of economic friction. The price of these books has now been reduced to 8*d*. or 9*d*.

necessary. Figures must be produced before duties are imposed or bounties given.

7. The second method mentioned, assistance to competition, has been tried even more extensively, and a fairly common occurrence in Australia is the entry of the State into the competitive field in order to prevent monopolists from exercising their full power. English and Australian journals usually ignore the existence of these "State enterprises," try to prove that they are of necessity hopelessly inefficient, or treat them as infallible solutions to all the economic troubles of an industry. The present outlook for this method of control may be judged from the recent Commonwealth Government oil policy, which may be taken as typical of the attitude to large combinations which is becoming general in all States. The Government recently instituted a Federal road-building scheme, and was in need of funds to maintain it. An ingenious plan was brought forward which would, it was claimed, bring in a large revenue and at the same time save Australia from exploitation by world oil interests. Since 1923, the Federal Government has had a controlling interest in the Commonwealth Oil Refineries Ltd. The other partner is the Anglo-Persian Oil Co. Ltd. The Refineries, which are just beginning to pay their way, are not large enough to supply the Australian demand. The policy of the Government towards State industrial enterprises is that they should only be encouraged under exceptional circumstances.[1] But it had been shown that exorbitant prices were being charged for petrol in Australia, and in August 1926 the Commonwealth Oil Refineries, in spite of the distance they had to bring their crude oil,[2] were able to sell petrol *2d.* per gallon cheaper than the importing companies. The Prime Minister pointed to the huge profits being made by the two great oil groups of the world, and suggested that if a duty of *2d.* per gallon were to be placed on imported petrol there was no reason why it

III, 5.

[1] House of Representatives, Debate on Federal Roads Bill, 3/8/26. Page 4808.

[2] Australia has at present almost no native supplies of petrol.

need be passed on to the consumer. He suggested that the proceeds of the duty should be used to improve the road system of the Commonwealth. "If, however, the tax which we propose to levy on imported petrol is passed on to the public, we will go ahead with our developmental scheme, not quietly as hitherto, but at a sufficiently accelerated pace to enable us to bring petrol into Australia, through the agency of the Commonwealth Oil Refineries Ltd., to make our people independent of these companies." Under the Federal Aid Roads Act passed in 1926, the Commonwealth Government provided for an expenditure of £20 million on roads during the following ten years. It is proposed to obtain £15 million of this from the increased import duties on oil, rubber tyres and motor chassis. Future developments in the oil industry and movements in prices of petrol should be interesting to watch.

8. Of the famous State enterprises in Queensland, there still remain the butchers' shops, fish shops, a produce agency, a cannery, a hotel, and a number of cattle stations. On the whole the existing enterprises have not been complete failures nor complete successes. By June 30, 1927, the total indebtedness of the cattle stations to the Treasury was £1·5 million, that of the other enterprises was £¼ million. The Queensland cattle industry has not been prospering recently, and as the State stations have had heavy losses, the Government decided in 1926 to dispose of them "when the opportunity offers and the prices are satisfactory." During the three years ending 1927, the other enterprises made between them a profit of £83,588. It is claimed that they have helped considerably in preventing high prices to consumers, and that the produce agency and cannery have obtained higher returns for producers.

III, 5.

9. A most successful government undertaking in Queensland has been the State Insurance Office, which was started in 1916. Its only capital was a small loan from the Government to cover the preliminary expenses of providing accommodation and staff. The Government has the monopoly of Workmen's Compensation Insurance,

III, 5.

but competes with private companies in all kinds of insurance. It is claimed that the establishment of the office reduced fire and accident rates by 20–33⅓rd per cent., in addition to giving policy-holders privileges which they could not have obtained elsewhere. The following are some comparative figures of the working of the State office and other companies during 1924–1926, in fire, marine and miscellaneous accident business.

		1924. Per cent.	1925. Per cent.	1926. Per cent.
Percentage of premium income paid in claims.	*State Office* . . .	37·4	56·4	50·5
	23 *British and Foreign Co.'s transacting business in Queensland* .	60·1	42·7	58
Percentage of premium income paid in expenses.	*State Office* . . .	27·2	28·9	27·4
	British and Foreign Co.'s	41·1	42·2	41·8
Balance of premium income.				
	State Office . . .	35·4	14·7	22·1
	British and Foreign Co.'s	−1·2	15·1	−·8

The total premium income of all Queensland insurance companies in 1926 was £1·37 million. Of this £·6 million was received by British and Foreign companies, £·2 million by New Zealand companies, £·34 million by Australian companies, and £·22 million by the State Government Office. New South Wales also started a State Insurance Office recently.[1]

10. In New South Wales several industrial enterprises are carried out by the State. A coal mine, worked by the Railway Commissioners, produces about ¼ million tons a year for the use of State departments. The mine, it is claimed, produces coal more cheaply than it could have been obtained outside. Upon other industrial undertakings which at present include metal quarries, a brickworks, a building construction branch, a pipe works, three-quarters of a million pounds of capital has been invested from loans and Government funds. During five years, after working expenses including rates and taxes, interest, depreciation and a provision for a sinking fund

III, 5.

[1] See First Annual Report. New South Wales Parliamentary Papers, 1928,

have been met, a profit remained. The Brickworks are indicated as a particular success, for in 1924–5, for example, although their products were sold at 17*s.* a thousand below the price of their competitors, a profit of 25 per cent. on capital was made. Two-thirds of the output was sold to private persons. The whole of the loan capital has been repaid to the Treasury. There have been large losses in certain State industries, which include trawling, timber, power-supply and baking. These undertakings have been closed and the assets sold.

The State enterprises in Australia have, on the whole, not received fair treatment from critics. There has not been sufficient inquiry into their workings, and their losses have been exaggerated. They have generally been advantageous to the consumer and have fulfilled a public service which has sometimes more than compensated for a deficit in their accounts. It must be admitted that the need for sound and flexible methods of payment to employees in State businesses has, until recently, been realised even less than in outside firms. This fault is being remedied in certain directions.[1] Past experience will supply the key.

11. The largest monopoly affecting the economic life of Australia is that which exists in the Shipping trade. III, 5. The following brief account of its activities appeared in the Report of a Royal Commission which sat in 1923 to inquire into the effect of the Navigation Acts[2] upon Australian trade. There were six Commissioners and a Chairman, and three separate reports were issued. In one direction two reports came to practically the same conclusions.

" It is well known that the whole of the overseas shipping of England is in the hands of the shipping combine known as the ' Inchcape Group,' of which the head is Lord Inchcape. There is no secret about this fact, and it is not for one moment asserted that there is anything sinister in this

[1] For example, in the N.S.W. State Brickworks the management state that the system of profit-sharing in operation " is in a considerable degree responsible for the success of the undertaking " (Report, 1926).

[2] See footnote, page 269.

combine. In fact, the combine is openly defended in the United Kingdom, for it is claimed that the shipping monopoly eliminates waste, and instead of one English company fighting another, they are combined to compete with foreign shipping." "With the same motives, in order not to waste ships and money in competing with the Australian companies, the English combine has chosen the easier way, and acquired controlling interests in almost every Australian Company." The Commission had considerable difficulty in finding out the extent of the operations of the Companies in Australia, but it soon became evident that they had other interests than shipping. The Commission therefore "had to resort to official records of lists of shareholders, which, in a number of cases, are incomplete, and also are misleading. For example, a trustee agency, or a bank, may be found to hold a large parcel of shares in a Company. There is nothing to show for whom these shares are held. Other 'dummies' are used, consisting of officials of companies and relatives of directors." Among other concerns the Companies were found to have shares in several large collieries, Pacific Island development companies and engineering works. Two of the reports remark: "As the great Meat Trust of the U.S. built up its business by its interlinking with rail road interests, so the fortunes of the principal shipping companies of Australia (a branch of the overseas shipping combine) are bound up in those of the greatest of Australian industries, and thus it becomes patent that a comparatively few persons, mostly resident outside Australia and with large English and foreign financial interests, constitute an enormous trust which, to a large extent, controls the economic destinies of Australia." It was pointed out, however, that the profits of the interstate shipping companies cannot be regarded as excessive.

12. This trust still remains practically uncontrolled.[1]

[1] The Imperial Shipping Committee may, however, inquire into complaints concerning ocean freights, facilities and conditions in Inter-Imperial trade, and report their conclusions to the Government concerned. The Commonwealth Government recently proposed to hold a representative conference to discuss shipping matters in Australia.

The extent to which control is needed could only be discovered after detailed examination. Such an examination would do much to allay extreme feelings against, or in favour of, the shipping companies. It is, nevertheless, no wonder that in spite of the protection of Navigation Acts [1] an Australian Mercantile Marine has not been built up. Attempts have been made to run a small company but the combine has effectively prevented its growth. During the war the shortage of shipping compelled the Australian Government to build ships of its own.

III, 5.

The Commonwealth Government Shipping Line was inaugurated in 1916. For some years it made substantial profits and was instrumental in bringing about lower freights for Australian traders. By 1923, losses had begun to accumulate for many reasons, including the post-war trade depression. The Line was taken over by a Board in 1923, a time when most of its vessels were incapable of making a profit and had to remain laid up. Between 1923 and 1928 the Board lost money through its activities to the extent of about two and a half million pounds (including interest and depreciation). Accordingly the Joint Committee of Public Accounts was asked to inquire into the position of the Line. The Majority Report of the Committee pointed to the advantages of the Line. It gave extra facilities to passengers and traders and kept down freights, but it was considered that these advantages were being

[1] The Coasting Trade Provisions of the Navigation Acts of 1912–24 provide that no overseas boat may trade between Australian ports unless licensed or carrying a permit. Licences will only be granted if the shipping company fulfils three conditions: (1) The seamen must receive the wages laid down by the Federal Court of Conciliation and Arbitration; (2) there must be the same number of officers and men, and the same accommodation for them as would be necessary on a British ship registered in Australia for the Coasting Trade; (3) where a library is provided for the use of passengers, every seaman and apprentice shall, where no library for their special use is provided, be entitled to obtain books from it under the same conditions as passengers. The Act was amended in 1926 to allow certain unlicensed ships to engage in Commonwealth tourist traffic for certain periods. It appears that in order to protect the standard of life of the seamen engaged in interstate trade, freights have had to be raised considerably. The Commonwealth Government has stated its intention to abolish these Coasting Trade Provisions and to adopt instead a form of protection to shipping by means of customs duties.

obtained at too great an expense. A suggestion was therefore made which it was hoped would retain the benefits of the control exercised by the Line and remove its disadvantages. It was proposed that a company should be formed in Australia by Australians, which would take over the Line from the Board and run it on business lines with the guaranteed support of the Government through the granting of mail contracts, as well as a substantial proportion of the immigrant traffic, and the carriage of Government goods. The transfer value of the boats to the new company should be written down, and if necessary, help might be given towards the raising of loans. The venture would be made as the result of Government co-operation with the people, and of the people with one another. The Minority Report advocated the retention of the Line in Government hands. It claimed that the control over freights which had been exercised by the Board was more valuable in terms of cash, than the annual loss. It stated, for example, that recently the Board had been asked by the other shipping companies to agree to a 15 per cent. rise in freight rates on cargo carried from Europe to Australia. The Board had refused, and the rise did not take place. Such savings, the Report pointed out, were greater than the largest annual loss so far. Events in Canada were also referred to, where, in spite of a loss in 1924, by the Canadian Government Mercantile Marine, of a sum considerably larger than that lost in Australia, five more vessels of 10,000 tons each were being ordered. In 1927, the Federal Government put the Line up for sale under conditions which it was stated would safeguard the Australian shipper against unduly high freights. Early in 1928 the Line was purchased by Lord Kylsant for £19 million, and the vessels are being run in conjunction with the Aberdeen Line. It has been agreed that no general increase in homeward freights is to be made by the Line without reference to a responsible body to be established in Australia, representing all interests concerned. The members are to be selected by the Government and the buyers.

13. The fourth method, interference with the terms of

contracts, has been used widely in Australia. For the control of prices there still remains some of the legislation passed during the war.[1] III, 6.

In New South Wales, rents are to-day subject to control, and in Queensland retail prices and rents. Under the New South Wales Fair Rents Act 1915–26, a Fair Rents Court, presided over by a special magistrate, may determine the "fair rent" of any dwelling-house let for a term of three years or less, at a rent of not more than £156 a year, and of any shop let for a rent of £362 a year or under. Between 1916 and 1927 in the Metropolitan district of Sydney nearly ten thousand cases were brought before the Court. Four thousand of these were withdrawn or struck out. Of the remainder, the Court granted reductions in 3,304 cases, and increases in 1,637.[2] In 1926–7 the Court determined the rent of over 1,200 houses or shops.[2]

The "fair" rent is fixed as a percentage of an amount which equals the unimproved value of the land plus the estimated cost, at the date of application, of erecting the house or shop, minus a sum for depreciation. The percentage may be two and a half per cent. higher but may not be lower than the current rates charged by the Commonwealth Bank for overdrafts, plus an allowance for rates, repairs, maintenance, insurance, and depreciation. At the beginning of 1925 the percentage was seven and a half. Since the middle of that year the rate has been seven per cent. in most cases.

14. Under the Queensland Profiteering Prevention Act, a Commissioner of Prices had the right to fix at his absolute discretion, the maximum price at which any commodity may be sold. No trader might refuse to sell at the declared price or at a lower price, if he had in his possession a quantity of goods in excess of a certain amount. In addition, certain concessions, exclusive dealings and refusal to do business, as well as monopolies and combines, were made illegal. Heavy penalties could III, 6 & 7.

[1] The detailed control of prices and margins in the sugar industry is described in Chap. II.

[2] The number of cases in the country districts is comparatively small. For further details, see *New South Wales Year Book*.

be imposed for breach of the Act. The Commissioner might hold inquiries, inspect commodities and documents, receive evidence on oath, in public or in private, and had very wide powers of jurisdiction. These were not exercised to the full as the aim of the Government was simply to prevent excessive prices. The policing of the Act was done by the general public. Retailers tend to favour fixation of the prices if a sufficient margin is allowed for profit, as it stabilises trade. When the Act first came into force the cost of living was high in Queensland ; in 1924 it was lower than in any other Australian State. This may or may not have been due to the Act, but there is little doubt that many extortions have been prevented, although the staff of the Commissioner amounted to three only. From 1925, the powers of the Commissioner were taken over by the Board of Trade and Arbitration[1] and the staff has been increased. During 1926–7 action was taken in about eight hundred cases. Although house rents have increased more in Brisbane than in any other capital, and in spite of the drought conditions of that year, the cost of living, according to the Commonwealth Statistician's figures, was still lower in Queensland than in any other State. Owing to the continuance of drought for several months, followed by floods, this was not so in 1926–7.

During 1926–7 an inquiry was made into the retail prices of clothing, and associations of traders and consumers gave much valuable evidence upon which State-wide price notifications were based. Traders generally are observing the prices notified by the Board. An impartial inquiry into the working of this form of control should supply much useful information.

Some control over Australian prices is exercised through Consumers' Co-operative Societies. In 1925 there were 144 of these societies in Australia, with a membership of nearly 150,000, and a gross sales turnover of about £8 million.

15. As has been shown elsewhere, other conditions of contracts, besides those relating directly to price, are regu-

[1] See Chap. IV.

lated in Australia. For example, compulsory co-operation is an attempt to obtain better conditions for producers. Conciliation and Arbitration legislation compels most employers to provide at least a minimum standard of life for their workers. Broadly, all methods of economic control result in an interference with the terms of contracts; all to some extent prevent the abuse of monopoly power, which is one of the most important causes of economic friction.

III, 8.

16. It can therefore be seen that it is in positive action, the encouragement of competition and the regulation of contracts, rather than in mainly preventive action, obstruction to combination and the penalising of monopolistic devices, that Australia has made the greatest efforts.

CHAPTER IX

CONCLUSIONS

Economic control is being exercised in Australia, to a greater or less degree, in almost all the ways mentioned in Part II.[1] Economic friction due to inertia, ignorance, the anti-social preferences of individuals, and the inconvenient division of resources in industry, has been attacked in a forcible if somewhat unsystematic manner. An attempt has been made to ensure a better use of natural resources by means of inquiries, publicity, customs duties, bounties, organised development schemes and control over land tenure. The growth of material capital has also been encouraged in these ways, as well as through collective saving and the granting of credit facilities. It is in control over the use of human capital that Australia is achieving more remarkable results than any other country. Whether these in time will prove expensive remains to be seen, but to-day the interests of the worker in industry are nowhere so well safeguarded. While the Australian workman is, on the average, as efficient as any in the world, there is no

[1] The Federal Treasurer in his Budget Speech of 1926, remarked: "The principal stages of economic reconstruction after the war have been recognised to be—Stable Government; Provision for Repayment of War Debt; Balancing the Budget; Stabilisation of Currency; Re-organisation of Industry. The first four of these have now been definitely secured in Australia." His Government, he declared, was helping to bring about the fifth. Their policy was to secure the balanced development of Australia. The programme of the Bruce Government which has again been returned to power, include the following: (1) Repeal of coastal clauses of the Navigation Act which will be replaced by a system of protection for vessels complying with Australian standards of wages and living conditions; (2) Organised economic research and a study of the effects of the Tariff; (3) The formation of a policy to lessen and alleviate unemployment; (4) Further provision for the unification of railway gauges; (5) Maintenance of the proportion of 98 per cent. of Australian and British born subjects in the population.

doubt that he will not give of his best until a form of payment is adopted which gives him a return varying with some form of index based upon his production, his efforts, and their social economic worth. The progress of knowledge is being encouraged through research and publicity on a large but still inadequate scale. Co-operation between employers and employees has been helped by industrial tribunals, and has resulted recently in less friction than in this country, though in certain industries, of which mining and transport are the most obvious, much remains to be done. Recent Australian experiments in the encouragement of co-operation between producers, particularly farmers, and between producers and consumers, are worthy of the world's attention. The problems of standardisation and simplified practice are being tackled on an important scale. America, however, still leads in this direction. One or two interesting efforts are being made by Australia to control trusts and combinations of producers, as in the Oil, Sugar and Shipping industries, and in Queensland retail trade. Apart from the example of the Sugar industry, the the results of her control over these forms of monopoly have not yet been striking.

In almost every case, the State has been the force which has enabled economic control to be exercised. Privately organised control has, it is true, been growing, but as soon as it becomes extensive some degree of protection by the State appears necessary in the interests of the community.

Control is being exercised in three important ways: First, but less generally, through the public ownership of an industry, and its operation by a Commission or Board; secondly, though only in one instance, through the public control of all branches of an industry, the operation and administration being left to the parties concerned; thirdly and more generally, through the partial control of an industry or group of industries, when the interest of the community is likely otherwise to be overlooked by certain individuals.

Efforts are also being made to remove economic friction which prevents the national income from being distributed

and consumed in a more suitable way. A great deal of this kind of work is being rendered unnecessary, however, as the provision of minimum standards to workers, and the movements towards obtaining minimum standard returns for farmers, tend to lessen considerably the inequality of incomes from work. Taxation which controls inequality of incomes from property, though sometimes lower on small incomes than elsewhere, is similar to that imposed in other countries. A certain amount of control over the types of goods consumed is being exercised through customs duties. Marketing boards are to some extent controlling the time at which goods are consumed.

The chief methods of control mentioned in Part II, which are not at present being used on any scale in Australia, are those involving the establishment of organised labour exchanges, the forecasting of business conditions and the regulation of combative advertising. Some attempts have been made to fill the gap, as far as the first two are concerned.[1]

It is obvious that in these early stages of control methods are not likely to be exercised in the most desirable proportions. The Tariff, for example, even in its present unscientific form, appears to have assumed a very much over-rated reputation as a means of control. Further, the costs of most of the methods to the country as a whole has not yet been studied. The main need is co-ordination between controlling authorities and a measurement of results through continuous inquiry. If experiments are to be really effective they must be controlled in some degree from a central source and only applied when really necessary and when it appears that the country can afford them. The most interesting advance in this direction is the appointment of the Development and Migration Commission, whose function is stated to be the co-ordination of the whole of Australian developmental activities. The Commission, in

[1] See the Report of the Development and Migration Commission on Unemployment and Business Stability, and of the Commission on Unemployment Insurance; also Reports on Australian Business Conditions by the Alexander Hamilton Institute, Sydney, and certain numbers of the *Economic Record*.

co-operation with the Council for Scientific and Industrial Research, and the Bureau of Census and Statistics, has it in its power to pave the way for more scientific control, and is realising the importance of its duties as economic adviser to the Commonwealth.

It is, at present, impossible to estimate the costs of control. An attempt to do so would involve much research or guesswork. The aim of this book is simply to state some of the methods which are being used and to relate them to economic theory. The time for a general summing up has not yet come. It is, however, possible to refer to the present economic position of Australia, and if the results of control are very beneficial, or very disastrous, some signs would no doubt appear.

1. The population of the Commonwealth between 1921 and 1927 increased at the rate of about 2 per cent. per annum. About three-quarters of this amount was due to natural increase and the remainder was due to net migration. In any criticism, therefore, of the restrictive immigration policy of Australia, and of her large uninhabited areas, it must be remembered that her population is increasing faster than that of nearly every other country in the world.[1] Nevertheless, this rate of increase appears considerably lower than that of Argentina and Brazil, though not of Chile. A study of development in these two countries is necessary before a satisfactory judgment can be passed on Australian policy.

2. When allowance is made for changes in the price level, the estimated relative productivity of this population *per head* has been as follows :

1911	1,000
1912	996
1913	1,040
1919–20	839
1924–5	998
1925–6	952
1926–7	1,008

[1] In this connection it should be noted that the rate of increase during the nineteenth century, in the United States, a country nearer Europe and with much greater resources, was only about 3 per cent.

The index of productivity *per breadwinner* shows, however, an almost steady rise since 1920–1 and reached 1,112 in 1924–5 (1911 = 1,000), and 1,047 in 1925–6. As for several reasons these index numbers must not be taken too seriously, it is not possible to draw many conclusions from the changes. It appears, nevertheless, that Australian producers, in spite of increased numbers, are on the average producing at least as much per head as before the war. When account is taken of her large unused natural resources, the progress of production does not, however, appear striking, nor perhaps adequate.[1]

3. The following is a table showing approximately the percentage importance of the main types of production carried on immediately before and after the war.

VALUE OF CERTAIN KINDS OF PRODUCTION AS A PERCENTAGE OF VALUE OF TOTAL PRODUCTION

	1909–13. Per cent.	1923–27. Per cent.
Agricultural, pastoral, dairying and farmyard industries	60	59
Forestry and fisheries	3	3
Mining	12	6
Manufacturing (excluding dairy products) [2]	24	32
	100	100

The most noticeable feature of the above is that the proportion occupied by the primary industries (apart from mining) has remained almost stationary. The proportion lost by mining due mainly to price slumps and increased costs has been taken by manufacturing. In 1913, about $\frac{2}{5}\frac{9}{9}$ of the agricultural, pastoral and dairying group was taken up by the pastoral industry, which is mainly sheep and cattle rearing. In 1925–6 this figure was about $\frac{2}{5}\frac{6}{9}$. Wool and meat together are, therefore, of about the same relative importance to Australia as before the war.

4. Mr. Benham suggests that the prosperity of Australia would have been much greater had there been no tariff to direct investment into manufacturing and draw it away

[1] See Benham, *The Prosperity of Australia*.

[2] For detailed contents of this item, see *Production Bulletin* of the Commonwealth Statistician.

from agricultural and pastoral production. It appears from these figures, however, that these forms of production have maintained their place in spite of the tariff. Perhaps the product of investment would have been greater if the proportion of investment in manufacturing had not increased, but it seems likely that much of the investment would not have taken place at all if it had not gone into manufacturing. Certainly, most of the British firms who have opened branches in Australia under tariff protection, would not have been interested in primary production. The tariff has made some branches of manufacturing more profitable, but other collective activities have increased the prosperity of primary production, and the attempts of Governments to stimulate production in all directions are not so Gilbertian a spectacle as Mr. Benham imagines.[1]

Production in the main industries has been as follows:

Approximate Period.	Wool. Million lb.	Wheat. Million bushels.	Butter. Million lb.	Sugar. 1,000 tons.	Value added Manufacturing. Million £	1913 Prices. £
1913–14 . .	754	103	199	224	62	62
1925–26 . .	830	115	273	518	155	app. 90
1926–27 . .	900	161	250	413	162	,, 100

In 1913 the number of cattle was 11·5 million, and in 1927, 12 million. The number of sheep rose from 89 million to 104 million during the same period. The area under crop increased from 14·7 million acres to 17·8 million.

5. The average wages of all workers, allowance being made for changes in retail prices and for unemployment, have varied as follows:

1911	1,000
1913	970
1921	1,002
1922	1,072
1923	1,035
1924	1,046
1925	1,034
1926	1,045
1927	1,075

[1] See Part II, Chap. V, par. 11.

The standard of comfort of workers appears, therefore, to have risen above that of before the war. An attempt has been made by the Commonwealth Statistician, with the aid of the International Labour Office, to compare real wages in Australian cities with those in other countries.[1] He estimated that in July 1927, if London wages are taken to be 100, *approximate* real wages in Melbourne were 142, Sydney 144, Ottawa 157, and Philadelphia 179. In Berlin wages stood at about 67. About 63 per cent. of the Australian population live in cities. Agricultural wages are not on the whole high. Rural awards in Queensland and New South Wales will lessen the inequality of incomes between rural and city workers. Their effect upon production as a whole remains to be seen.

Mr. Benham considers that wage regulation can do little to make average real wage rates higher than they would have been under normal circumstances. This may be true, but it does not contradict the statement that individual workers in certain industries owe the level of their wages to regulation. Further, he admits that regulation has increased the stability of industry and enables employers to lay their plans about twelve months ahead. Greater productivity is likely to be obtained if a minimum standard of wages is laid down with extra payment, whenever possible, for extra effort and production.

6. The average recorded unemployment in Australia between 1909–13 was 5·6 per cent. Between 1922–6 this had risen to 8·2 per cent. The average for 1927 was 7 per cent., but for the last quarter the figure was 8·9 per cent. In a country with wide undeveloped territories, lengthy periods of unemployment for healthy individuals appear totally unnecessary if cheap land is made available. The question has been examined recently by the Development and Migration Commission. The Commission recommends: (1) The collection of more statistics; (2) More research; (3) Regulation of the time when public works are carried out; (4) The establishment of a more uniform system

[1] See *Labour Report* of Commonwealth Statistician, 1927. The indexes are based on food consumption in various important cities.

of Employment Bureaux; (5) The development of vocational guidance; (6) An examination of the possibilities of a policy of exchange stabilisation, worked through the Commonwealth and private banks; (7) The formation of State Industrial Stability Committees whose activities should be co-ordinated on a Federal basis.[1]

7. Although production per breadwinner has risen slightly, the hours worked per employee have steadily fallen. In 1914 the average weekly hours of labour for adult males, in industries other than shipping and agriculture, were 48·93. In 1921 they were 46·22 and in 1927 45·46.

8. Figures of profits in the agricultural and pastoral industries are not available. They would vary greatly from season to season and from industry to industry. In manufacturing, the percentage of total value of output left, after salaries and wages, fuel, light and materials had been deducted, remains almost the same as before the war (about 17 per cent.).

9. The cost of living in Australia since the war has not risen as much as in most other countries.

BRITISH MINISTRY OF LABOUR

Cost of Living Figures, 1927. 1914 = 100

(Food, house-rent, clothes, fuel, light, and certain other household requirements.)

South Africa	132
Australia	145
Germany	151
Canada	156
New Zealand	161
United Kingdom	168
United States	173
Denmark	176

Mr. Benham has estimated that compared with the present cost of living in Great Britain, the cost in Australia is about 20 per cent. higher.[2] For the professional man receiving

[1] *Report on Unemployment and Business Stability*, 1928 (with appendix by Professor Copland on "The Control of the Business Cycle").

[2] It has also been stated by Mr. Benham and others that, since 1921, the prices of manufactured goods in Australia have risen, instead of fallen as

more than £500 a year, who has certain traditional appearances and standards of life to maintain, this is probably true. English cloth, and certain luxuries, for example, have definitely been increased in price through the tariff. For the ordinary working man it is not nearly so certain that cost of living is higher than in Great Britain. While his rent is somewhat higher, food is cheaper and medium quality clothes are, on the whole, about the same price, though the very cheapest quality clothes are almost unobtainable in Australia. The cost of medium standard board and lodging in the capital cities is distinctly cheaper than in Great Britain.

10. During the war the Public Debt rose enormously. In this connection it must be remembered that about half the debt outstanding was raised in Australia, and unlike the British Public Debt, at least two-thirds has been spent on productive works. External borrowing is still on a large scale, as is natural for a new country. Whether all loan money is being spent wisely is a matter which needs investigation. As long as interest is being paid and events make it appear likely that it will be paid in the future, borrowing can continue. A series of bad seasons might cause a temporary cessation and considerable financial embarrassments. In 1908, the Public Debt per head was £58; in 1913–14, £66. With the war a large and inevitable increase followed. Between the years 1922 and 1926 the debt rose from £159 to £167 per head. This was a rise, hardly greater in absolute amount than during the five years before the war. But between 1925 and 1928 heavy borrowing led to uneasiness among prospective investors abroad. Perhaps temporarily the safe limit has been

elsewhere. The basis of this statement is the Manufacturing Production Prices Index Number of the Commonwealth Bureau of Census and Statistics (see *Production Bulletin*, No. 20, p. 173). An examination of the structure of this index number will show that the truth of the statement is far from proved, though it may be correct for certain industries. The index measures the trend, not of manufacturing prices but of manufacturing costs through averaging wages paid per head, cost per unit of horse-power, and the margin remaining for profit and miscellaneous expenses. The Statistician states: "Quantities of manufactured products are not available for a sufficient number of items to enable an index number to be determined for the manufacturing industry on similar lines to the primary industries."

reached. Borrowing is, however, bound to continue on a large scale, particularly as a result of the Migration Agreement. The real burden of the external debt appears to have diminished since 1901, mainly owing to the fall in the value of money during the war. Rising prices benefited Australia as a debtor, and to some extent compensated her for losses in the war.

It should be noted that ½ per cent. of the debt must be paid into a sinking fund every year, out of the revenue. This is used to repurchase stocks from the market which are then cancelled. Interest is still paid on the cancelled stock at 5 per cent., and is transferred to the Sinking Fund. Between 1923 and 1928, £21 million from the Sinking Fund was spent on redemption of loans.

11. In contrast to the high rate of borrowing by Australian Governments, the rate of saving among the people has steadily increased. In 1915, there was one savings bank account for every two inhabitants of the Commonwealth ; by 1928, over three-quarters of the population had accounts. The average size of accounts, allowing for changes in the price level, had slightly risen, and in 1928 amounted to about £46.

12. In spite of tariff restrictions the import trade has increased. The annual tonnage of overseas cargo discharged and shipped since the war has been as follows :

	Discharged. Million Tons.	Shipped. Million Tons.
1919–20	2·2	5·0
1925–26	5·3	5·2
1926–27	6·0	5·2

The average annual value of imports in the five years before the war was about £60 million. In 1927–8 imports were £148 million, which, allowing for changes in the price level, was a substantial increase. Such an increase does not indicate a total failure of the Tariff policy, for an examination of trade figures will show that in several items the nature of imports has changed. Some examples of a fall in imports which has been helped by the Tariff are given in the following table :—

IMPORTS INTO AUSTRALIA

			1913.	1925–6.	1926–7*
Biscuits	million	lb.	·49	·36	·56
Confectionery	,,	,,	8·7	1·4	1·4
Pickles, sauces, etc., not in bulk	,,	doz.	·45	·13	·14
Cane-sugar	,,	cwt.	1·5	·007	·07
Hats, felt, of fur and wool	,,	doz.	·11	·10	·12
Boots and shoes (not of rubber)	,,	£	·48	·23	·29
Total apparel	,,	£	5·8	6·5	7·1
Blankets and blanketing	,,	£	·036	·039	·041
Woollen piece goods	,,	£	2·1	2·3	2·4
Paints, ready for use or ground in liquid	,,	cwt.	·22	·05	·06
Varnishes	,,	gall.	·29	·07	·08
Iron and Steel—					
Pig iron	,,	cwt.	1·1	·22	·14
Bars, rods, angles, tees, etc.	,,	,,	2·6	1·1	1·7
Hoop	,,	,,	·18	·19	·25
Ingots, blooms, etc., less finished than iron or steel bars	,,	,,	·19	·05	·06
Locomotives	,,	£	·43	·47	·08
Wire Netting	,,	£	·34	·10	·13
Rails and other railway materials	,,	£	1·3	·17	·08
Calcium Carbide	,,	cwt.	·29	·05	·04
Soap	,,	lb.	3·4	·93	1·1

* (By 1927, population was 30 per cent., prices were about 45 per cent., above 1913 level.)

All the above goods are now manufactured in Australia in greater quantity, and other articles are imported instead.

The value of exports has risen from about £70 million in 1909–13 to £143 million in 1927–8, which again is a substantial real increase though not quite so marked as that of the imports. When the recent high values of raw wool are taken into consideration, this smaller increase in exports might lead to the conclusion that Tariff restrictions have reacted upon the buying power of overseas countries which have been hit by the Australian Tariff. The relative importance to the world of the Australian demand for the restricted goods is not, however, great, and any tendency in this direction would be more than compensated for by the increased domestic demand for Australian goods by people attracted to Australia through the Tariff and for

other reasons, and the increased prosperity in those overseas industries whose exports to Australia have increased. Wool, wheat and dairy produce will be demanded by the world, provided their price is sufficiently low, even though Australia shuts out certain imports. Australia is tending to supply them only if her producers obtain a reasonable return for their efforts. Occasionally she resorts to dumping as in the Sugar industry under State control, and in the Dairy industry through voluntary organisation. Producers are thus enabled to recoup themselves from the home market.

The quantities of Australia's main exports have been as follows:

		1909–13. (Average annual export.)	1925–6.	1926–7.
Wool:				
Greasy	million lb.	557	769	712
Scoured	,, ,,	70	56	58
Wheat	,, bushels	42	54	74
Flour	thousand tons	167	448	441
Butter	million lb.	78	98	77
Mutton and Lamb	,, ,,	151	86	94
Beef	,, ,,	130	214	112

The League of Nations Statistical Year Book gives figures showing the value of the imports and exports, converted into dollars, of the main countries of the world. Among those whose imports or exports represent at least 2 per cent. of the world's totals, Australia appears in a favourable light. Apart from the United States, Canada, China, Japan, and British Malaya, the Commonwealth is the only country whose imports and exports each represent a larger proportion of the world totals than before the war.[1]

13. Internal trade has also increased. Interstate cargo shipped since 1921 has been as follows:

1921–2	5·5	million tons (40 cub. feet).
1922–3	5·1	,, ,,
1923–4	6·4	,, ,,
1924–5	6·4	,, ,,
1925–6	5·7	,, ,,
1926–7	6·8	,, ,,

[1] The United Kingdom, Germany, France, British India, Italy, South America (taken as a whole), Belgium and South Africa have all lost ground either in the import trade or the export trade or in both.

The average number of train miles run by the State railways during each of the years 1909–13 was about 54 million and between 1924–8 was about 69 million.

14. All these increases must be qualified, however, by the fact that they would have been greater had economic friction been overcome more successfully. Economic control through legislation, the restriction of some activities and the encouragement of others can, if not carried out well, increase economic friction in certain directions. Helping people often makes them apathetic, and if control helps them to do the wrong thing, results may be far worse than if they had been left to their own efforts. The figures of bankruptcies in Australia seem to be worth quoting here:

	Average. 1909–13.	1924.	1925.
Number of bankruptcies .	1,240	1,650	1,763
Liabilities (thousand £) .	625	1,733	1,885
Assets (thousand £) . .	364	883	1,040

When considering these figures, increases in population and prices must be allowed for. Nevertheless substantial changes will be noted. These are not necessarily the result of economic control, but their causes should be discovered, as they may show the weaknesses of certain methods of control more clearly. It may be that the Tariff has been fostering mushroom industries. It may be that land settlement has been badly run. It may simply be that the figures are unreliable. In any case an inquiry would be useful.

15. No very striking conclusions can be drawn as to the direct costs of control. The figures show that Australia, generally, has been making progress since the war and has managed to maintain a comparatively high standard of well-being for her people. Undoubtedly the insistence upon an Australian "standard of comfort" has been of direct benefit to the majority of Australians and has prevented competition from increasing production at the expense of producers themselves. Whether the world as a whole would have benefited from a "freer" Australia is extremely doubtful. Although the actual advantages of

the methods of control cannot be definitely traced in the figures set out, disadvantages do not appear insurmountable, and the existence of economic control is of the utmost importance to Australia. The Commonwealth having once thought it possible to exert a wide influence over its economic destiny and having experimented on a large scale, can, only at its own peril, tire in its efforts. In spite of climatic limitations, Australia has vast resources which remain undeveloped. The rate of development could, it seems, be speeded up considerably.

The chief result of control is that it is increasing the mobility of certain productive resources in the form of men, materials and machines, over the whole continent and between Australia and the rest of the world. This mobility may sometimes be encouraged at the expense of freer mobility in other directions, but to compensate for this loss there is developing in the Commonwealth what the late Professor Knowles, referring to the Empire as a whole, called the "conscious co-operation of all parts." The result is self-preservation, a fuller development of economic life and "the growth of an ideal or enthusiasm, without which all else is vain."[1]

[1] Knowles, *Industrial and Commercial Revolutions*, p. 359, Part VI. The New Constructive Imperialism.

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